

**IMPORTANT: You must read the following before continuing.** The following applies to the prospectus following this page (the **Prospectus**) and you are therefore advised to read this carefully before reading, accessing or making any other use of the Prospectus. In accessing the Prospectus, you agree to be bound by the following terms and conditions, including any modifications to them any time you receive any information from us as a result of such access. If you have gained access to this transmission contrary to any of the following restrictions, you are not authorised and will not be able to purchase any of the securities described herein (the **Securities**). You acknowledge that this electronic transmission and the delivery of the attached Prospectus is intended for you only and you agree you will not forward this electronic transmission or the attached Prospectus to any other person. Any forwarding, distribution or reproduction of this document in whole or in part is unauthorised. Failure to comply with the following directives may result in a violation of the U.S. Securities Act of 1933, as amended (the **Securities Act**) or the applicable laws of other jurisdictions.

**THIS OFFERING IS AVAILABLE ONLY TO INVESTORS OUTSIDE OF THE UNITED STATES IN RELIANCE ON REGULATION S UNDER THE SECURITIES ACT (REGULATION S).**

**NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN ANY JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE SECURITIES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE SECURITIES ACT, OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION AND THE SECURITIES MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES, EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE STATE OR LOCAL SECURITIES LAWS.**

**THE FOLLOWING PROSPECTUS MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THE PROSPECTUS IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.**

**Confirmation of your representation:** In order to be eligible to view the Prospectus or make an investment decision with respect to the Securities, an investor must be outside the United States. The Prospectus is being sent at your request and by accepting the e-mail and accessing the Prospectus, you shall be deemed to have represented to us that (1) you and any customers you represent, and the electronic mail address that you gave us and to which this e-mail has been delivered, are not located in the United States, and (2) you consent to delivery of such Prospectus by electronic transmission.

You are reminded that the Prospectus has been delivered to you on the basis that you are a person into whose possession the Prospectus may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorised to, deliver the Prospectus to any other person.

The materials relating to the offering do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licensed broker or dealer and any Joint Lead Manager and Joint Bookrunner (as defined in the Prospectus), or any affiliate of such Joint Lead Manager and Joint Bookrunner is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by such Joint Lead Manager and Joint Bookrunner or such affiliate on behalf of GTLK Europe Capital DAC in such jurisdiction.

**MIFID II product governance** – Solely for the purposes of each manufacturer’s product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is eligible counterparties and professional clients only, each as defined in Directive 2014/65/EU (as amended, **MiFID II**); and (ii) all channels for distribution of the Notes (as defined in the Prospectus) to eligible counterparties and professional clients are appropriate. Any

person subsequently offering, selling or recommending the Notes (a **distributor**) should take into consideration the manufacturers' target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Note (by either adopting or refining the manufacturers' target market assessment) and determining appropriate distribution channels.

Under no circumstances shall this Prospectus constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the Notes in any jurisdiction in which such offer, solicitation or sale would be unlawful. Recipients of this Prospectus who intend to subscribe for or purchase the Notes are reminded that any subscription or purchase may only be made on the basis of the information contained in the Prospectus. This Prospectus may only be communicated or caused to be communicated to persons in the United Kingdom in circumstances where section 21(1) of the Financial Services and Markets Act 2000 (the **FSMA**) does not apply and may be distributed in the United Kingdom only to persons who (i) have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended) (the **Order**), or (ii) are persons falling within Article 49(2)(a) to (d) ("high net worth companies, unincorporated associations etc.") of the Order (all such persons together being referred to as **Relevant Persons**). In the United Kingdom, the Prospectus is directed only at Relevant Persons and must not be acted on or relied on by persons who are not Relevant Persons. Any investment or investment activity to which the Prospectus relates is available only to Relevant Persons and will be engaged in only with Relevant Persons.

This Prospectus or information contained therein is not an offer, or an invitation to make offers, sell, purchase, exchange or transfer any securities in the Russian Federation to or for the benefit of any Russian person or entity, and does not constitute an advertisement of offering of any securities in the Russian Federation within the meaning of Russian securities laws. Information contained in this Prospectus is not intended for any persons in the Russian Federation who are not "qualified investors" within the meaning of Article 51.2 of the Federal Law no. 39-FZ "On the securities market" dated 22 April 1996, as amended (**Russian QIs**) and must not be distributed or circulated into Russia or made available in Russia to any persons who are not Russian QIs, unless and to the extent they are otherwise permitted to access such information under Russian law.

The Prospectus has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently none of GTLK Europe Capital DAC, GTLK Europe DAC, Public Joint Stock Company "State transport leasing company" or any Joint Lead Manager and Joint Bookrunner or any person who controls them, nor any director, officer, employee or agent of any of them or affiliate of any such person, accepts any liability or responsibility whatsoever in respect of any difference between the Prospectus distributed to you in electronic format and the hard copy version available to you on request from any Joint Lead Manager and Joint Bookrunner.

You are responsible for protecting against viruses and other destructive items. Your use of this e-mail is at your own risk and it is your responsibility to take precautions to ensure that it is free from viruses and other items of a destructive nature.



## GTLK EUROPE CAPITAL DAC

*(incorporated as a designated activity company limited by shares under the laws of Ireland)*

as issuer of

**USD 600,000,000 4.65 per cent Guaranteed Notes due 2027**

**unconditionally and irrevocably guaranteed, on a joint and several basis, by**

**Public Joint Stock Company “State transport leasing company”**

*(a joint-stock company incorporated under the Laws of the Russian Federation)*

and

**GTLK Europe DAC**

*(incorporated as a designated activity company limited by shares under the laws of Ireland)*

Issue price of Notes: 100 per cent

GTLK Europe Capital DAC (the **Issuer**) incorporated as a designated activity company limited by shares under the laws of Ireland is issuing USD 600,000,000 aggregate principal amount of 4.65 per cent guaranteed notes due 2027 (the **Notes**). The Notes shall be unconditionally and irrevocably guaranteed, on a joint and several basis (each a **Guarantee** and together, the **Guarantees**) by Public Joint Stock Company “State transport leasing company” (STLC) and GTLK Europe DAC (**GTLKE** and, together with STLC, the **Guarantors** and each, a **Guarantor**).

Interest on the Notes will accrue from 10 March 2020 at a rate of 4.65 per cent per annum of their outstanding principal amount payable semi-annually in arrear on 10 March and 10 September of each year, commencing on 10 September 2020. Unless previously redeemed or cancelled the Notes will be redeemed at their principal amount on 10 March 2027. The Notes will be subject to, and have the benefit of, a trust deed between BNY Mellon Corporate Trustee Services Limited as trustee for the holders of the Notes (the **Trustee**), the Issuer and the Guarantors to be dated on or about 10 March 2020 (the **Trust Deed**).

The Notes will be unsecured and unsubordinated obligations of the Issuer and will rank equally in right of payment with the Issuer’s existing and future unsecured and unsubordinated obligations. Each Guarantee will be an unsecured and unsubordinated obligation of the relevant Guarantor and will rank equally in right of payment with all existing and future unsecured and unsubordinated obligations of such Guarantor.

Payments on the Notes will be made without deduction or withholding for taxes imposed by Ireland or the Russian Federation to the extent described in “*Terms and Conditions of the Notes*” herein. The Notes may be redeemed by the Issuer (i) in whole but not in part at 100 per cent of their principal amount, plus accrued and unpaid interest, if the Issuer becomes obliged to pay additional amounts for certain taxes; (ii) in whole or in part at any time on or after the date falling three months prior to the Maturity Date at 100 per cent. of their principal amount plus accrued and unpaid interest; and (iii) at any time in whole but not in part at the Make Whole Prepayment Amount (as defined in the Terms and Conditions of the Notes) plus accrued and unpaid interest as further described under “*Terms and Conditions of the Notes*”. Unless previously redeemed or purchased and cancelled, the Notes will be redeemed at their principal amount on 10 March 2027.

**An investment in the Notes involves certain risks. Prospective Investors should have regard to the factors described under the section headed “Risk Factors” beginning on page 11.**

Neither this Prospectus nor the information contained herein is an offer, or an invitation to make offers, to sell, exchange or otherwise transfer securities in the Russian Federation to or for the benefit of any Russian person or entity, and it does not constitute an advertisement or offering of securities in the Russian Federation within the meaning of Russian securities laws. Information contained in this Prospectus is not intended for any persons in the Russian Federation who are not “qualified investors” within the meaning of Article 51.2 of the Federal Law No. 39-FZ “On the Securities Market” dated 22 April 1996, as amended (the **Russian QIs**), and must not be distributed or circulated into Russia or made available in Russia to any persons who are not Russian QIs, unless and to the extent they are otherwise permitted to access such information under Russian law. The Notes have not been and will not be registered in Russia and are not intended for “placement” or “circulation” in Russia (each as defined in Russian securities laws) unless and to the extent otherwise permitted under Russian law.

The Prospectus has been approved by the Central Bank of Ireland (the **CBI**) as competent authority under Regulation (EU) 2017/1129 (the **Prospectus Regulation**). The CBI only approves this Prospectus as meeting the standards of completeness, comprehensibility and consistency imposed by the Prospectus Regulation. Such approval should not be considered as an endorsement of the Issuer, the Guarantors or the quality of the Notes that are the subject of this Prospectus and investors should make their own assessment as to the suitability of investing in the Notes. Application has been made to the Irish Stock Exchange plc trading as Euronext Dublin (**Euronext Dublin**) for the Notes to be admitted to the official list (the **Official List**) and trading on its regulated market (the **Regulated Market**). References in this Prospectus to the Notes being “listed” (and all related references) will mean that the Notes have been admitted to the Official List and have been admitted to trading on the Regulated Market. The Regulated Market is a regulated market for the purposes of Directive 2014/65/EU of the European Parliament and of the Council on markets in financial instruments. There is no assurance that such listing will be granted or maintained and that a trading market in the Notes will develop or be maintained.

STLC is rated BB by S&P Global Ratings Europe Limited (**S&P**), Ba1 by Moody’s Investors Service Ltd. (**Moody’s**) and BB+ by Fitch Ratings Limited (**Fitch**). The Notes are expected to be rated at issuance Ba2 by Moody’s and BB+ by Fitch and, together with Moody’s, the **Rating Agencies**. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation. As of the date of this Prospectus, each of the Rating Agencies is established in the European Union (which, for these purposes, includes the United Kingdom (the **UK**)) and is registered under Regulation (EU) No 1060/2009, as amended (the **CRA Regulation**) and is listed in the list of rating agencies available on the European Securities and Markets Association website.

The Notes and the Guarantees (the **Securities**) have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the **Securities Act**) and, subject to certain exceptions, may not be offered or sold within the United States. The Securities are being offered and sold outside the United States in reliance on Regulation S. The Securities have not been approved or disapproved by the U.S. Securities and Exchange Commission, any State securities commission in the United States or any other U.S. regulatory authority, nor have any of the foregoing authorities passed upon or endorsed the merits of the offering of the Securities or the accuracy or adequacy of this Prospectus. Any representation to the contrary is a criminal offence in the United States. For a description of these and certain further restrictions, see “*Subscription and Sale*” and “*Transfer Restrictions*”.

The Securities will initially be represented by beneficial interests in an unrestricted global certificate (the **Global Certificate**) in registered form, without interest coupons attached, which will be registered in the name of a nominee for and will be deposited with a common depositary for Euroclear Bank SA/NV (**Euroclear**) and Clearstream Banking, S.A (**Clearstream, Luxembourg**) on or about 10 March 2020 (the **Closing Date**). Beneficial interests in the Global Certificates will be shown on, and transfers thereof will be effected only through, records maintained by Euroclear and Clearstream, Luxembourg and their account holders. Definitive certificates in respect of beneficial interests in the Global Certificate, (the **Definitive Certificates**) will not be issued except as described under “*Summary of the Provisions relating to the Notes in Global Form*”.

### **Joint Lead Managers and Joint Bookrunners**

**Bank GPB  
International S.A.  
(Gazprombank)**

**Citigroup**

**J.P. Morgan**

**Renaissance  
Capital**

**Sova Capital**

**Sovcombank**

**VTB  
Capital**

**Prospectus dated 6 March 2020**

## IMPORTANT INFORMATION ABOUT THIS PROSPECTUS

This Prospectus comprises a prospectus for the purposes of the Prospectus Regulation. The Issuer and the Guarantors each accept responsibility for the information contained in this Prospectus. To the best of the knowledge of the Issuer and the Guarantors, the information contained in this Prospectus is true and accurate in all material respects and is in accordance with the facts and does not omit anything likely to affect the import of such information or which would make misleading any statement in this Prospectus, whether of facts or opinion.

No person has been authorised to give any information or to make any representation other than those contained in this Prospectus and any information or representation not so contained must not be relied upon as having been authorised by or on behalf of the Issuer, the Guarantors, the Trustee or any Joint Lead Manager and Joint Bookrunner. The information contained in the Prospectus is current as of the date hereof. The delivery of this Prospectus at any time does not imply that the information contained in it is correct as at any time subsequent to its date. Neither the delivery of this Prospectus nor the offering, sale or delivery of any Note shall in any circumstances create any implication that there has been no adverse change, or any event reasonably likely to involve any adverse change, in the condition (financial or otherwise) of the Issuer or the Guarantors since the date of this Prospectus.

No representation, warranty or undertaking, express or implied, is made and no responsibility is accepted by any Joint Lead Manager and Joint Bookrunner or the Trustee as to the accuracy or completeness of the information contained in this Prospectus or any other information supplied in connection with the Securities. Each person receiving this Prospectus acknowledges that such person has not relied on any Joint Lead Manager and Joint Bookrunner or the Trustee in connection with its investigation of the accuracy of such information or its investment decision and each person must rely on its own examination of the Issuer, the Guarantors and STLC's consolidated direct and indirect subsidiaries and affiliates (including the Issuer) taken as a whole (the **Group**) and the merits and risks involved in investing in the Securities. To the fullest extent permitted by law, none of the Joint Lead Managers and Joint Bookrunners or the Trustee accepts any responsibility whatsoever for the contents of this Prospectus or for any other statement made or purported to be made by it, or on its behalf, in connection with the Issuer, the Guarantors, the Group or the Securities. The Joint Lead Managers and Joint Bookrunners and the Trustee accordingly disclaim all and any liability whether arising in tort, contract or otherwise which any of them might otherwise have in respect of this Prospectus or any such statement.

The Issuer reserves the right to withdraw this offering of Securities at any time, and the Issuer and the Joint Lead Managers and Joint Bookrunners reserve the right to reject any commitment to subscribe for the Securities in the whole or in part and to allot an investor less than the full amount subscribed by it.

For a more complete description of restrictions on offers, sales and transfers, see "*Subscription and Sale*" and "*Transfer Restrictions*".

This Prospectus does not constitute an offer to sell or an invitation to subscribe for or purchase, by or on behalf of the Issuer, the Guarantors, any Joint Lead Manager and Joint Bookrunners, the Trustee or any other person, any of the Securities in any jurisdiction in which such offer or invitation is not authorised or to any person to whom it is unlawful to make such an offer or invitation. The distribution of this Prospectus and the offer and sale of the Securities in certain jurisdictions is restricted by law. Persons into whose possession this Prospectus or any of the Securities are delivered are required to inform themselves about and to observe any such restrictions. Each prospective purchaser of the Securities must comply with all applicable laws and regulations in force in any jurisdiction in which it purchases, offers or sells the Securities or possesses or distributes this Prospectus. In addition, each prospective purchaser must obtain any consent, approval or permission required under the regulations in force in any jurisdiction to which it is subject or in which it purchases, offers or sells the Securities. Neither the Issuer nor the Guarantors shall have any responsibility for obtaining such consent, approval or permission. In particular there are restrictions on the distribution of this Prospectus and the offer or sale of Securities in the United States, the United Kingdom, Ireland and the Russian Federation. For a description of these further restrictions on offers and sales of the Securities and distribution of this Prospectus, see "*Subscription and Sale*".

Any investment in Securities does not have the status of a bank deposit and is not within the scope of the deposit protection scheme operated by the CBI. The Issuer and the Guarantors are not and will not be regulated by the CBI as a result of issuing the Securities.

This Prospectus is valid for 12 months from its date. The Issuer will, in the event of any significant new factor, material mistake or inaccuracy relating to information included in this Prospectus which is capable of affecting the assessment of the Notes, prepare a supplement to this Prospectus. The obligation to prepare a supplement to this Prospectus in the event of any significant new factor, material mistake or inaccuracy shall not apply following the time at which the Notes are admitted to trading on the Regulated Market.

### **DOCUMENTS INCORPORATED BY REFERENCE**

This Prospectus is to be read in conjunction with all documents which are deemed to be incorporated in it by reference (see “*Documents Incorporated by Reference*”). This Prospectus shall be read and construed on the basis that those documents are incorporated and form part of this Prospectus.

### **NO INCORPORATION OF WEBSITES**

Other than in relation to the documents which are deemed to be incorporated by reference (see “*Documents Incorporated by Reference*”), the contents of the websites of the Issuer, the Guarantors or any other member of the Group do not form any part of this Prospectus and have not been scrutinised or approved by the Central Bank of Ireland.

### **STABILISATION**

In connection with the issue of the Notes, J.P. Morgan Securities plc (the **Stabilisation Manager**) (or persons acting on behalf of the Stabilisation Manager) may over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, stabilisation may not necessarily occur. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the Notes is made and, if begun, may cease at any time, but it must end no later than the earlier of 30 days after the issue date of the Notes and 60 days after the date of the allotment of the Notes. Any stabilisation action or over-allotment must be conducted by the Stabilisation Manager (or persons acting on behalf of the Stabilisation Manager) in accordance with all applicable laws and rules.

### **NOTICE TO RUSSIAN INVESTORS**

This Prospectus or information contained therein is not an offer, or an invitation to make offers, sell, purchase, exchange or transfer any securities in the Russian Federation to or for the benefit of any Russian person or entity, and does not constitute an advertisement of offering of any securities in the Russian Federation within the meaning of Russian securities laws. Information contained in this Prospectus is not intended for any persons in the Russian Federation who are not “qualified investors” within the meaning of Article 51.2 of the Federal Law no. 39-FZ “On the securities market” dated 22 April 1996, as amended (**Russian QIs**) and must not be distributed or circulated into Russia or made available in Russia to any persons who are not Russian QIs, unless and to the extent they are otherwise permitted to access such information under Russian law.

### **MIFID II PRODUCT GOVERNANCE**

Solely for the purposes of each manufacturer’s product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is eligible counterparties and professional clients only, each as defined in Directive 2014/65/EU (as amended, **MiFID II**); and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Notes (a **distributor**) should take into consideration the manufacturers’ target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Note (by either adopting or refining the manufacturers’ target market assessment) and determining appropriate distribution channels.

## PROHIBITION OF SALES TO EEA AND UK RETAIL INVESTORS

The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (the **EEA**) or in the United Kingdom (the **UK**). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of MiFID II; or (ii) a customer within the meaning of Directive (EU) 2016/97 (the **Insurance Distribution Directive**), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in Regulation (EU) 2017/1129 (the **Prospectus Regulation**). Consequently, no key information document required by Regulation (EU) No 1286/2014 (as amended, the **PRIIPs Regulation**) for offering or selling the Notes or otherwise making them available to retail investors in the EEA or in the UK has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA or in the UK may be unlawful under the PRIIPs Regulation.

## SUITABILITY OF INVESTMENT

Each potential investor in the Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- (i) have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained in the Prospectus;
- (ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact such investment will have on its overall investment portfolio;
- (iii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes;
- (iv) understand thoroughly the terms of the Notes and be familiar with the behaviour of the relevant financial markets; and
- (v) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Legal investment considerations may restrict certain investments. The investment activities of certain investors are subject to investment laws and regulations, or to the review by, or regulation of, certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (i) the Notes are legal investments to it; (ii) the Notes can be used as collateral for various types of borrowing; and (iii) other restrictions apply to its purchase or pledge of any Notes. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of the Notes under any applicable risk based capital or similar rules.

## FORWARD-LOOKING STATEMENTS

Certain statements in this Prospectus are not historical facts and are forward-looking statements. Forward-looking statements appear in various locations, including, without limitation, under the headings “*Overview of the Group*”, “*Risk Factors*”, “*Selected Financial Review*” and “*Business*”. The Issuer or the Guarantors may from time to time make written or oral forward-looking statements in reports to shareholders and in other communications. Forward-looking statements include statements concerning the Group’s plans, objectives, goals, strategies, future events, future revenues or performance, capital expenditures, financing needs, plans or intentions relating to acquisitions, its competitive strengths and weaknesses, its business strategy and the trends the Issuer or the Guarantors anticipate in the industries and the political and legal environment in which it operates and other information that is not historical information.

Words such as “believes”, “anticipates”, “estimates”, “expects”, “intends”, “predicts”, “projects”, “could”, “may”, “will”, “plans” and similar expressions are intended to identify forward-looking statements but are not the exclusive means of identifying such statements.

By their very nature, forward-looking statements involve inherent risks and uncertainties, both general and specific, and risks exist that the predictions, forecasts, projections and other forward-looking statements will not be achieved. These risks, uncertainties and other factors include, among other things, those listed under “*Risk Factors*”, as well as those included elsewhere in this Prospectus. Each prospective investor should be aware that a number of important factors could cause actual results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements.

This list of factors is not exhaustive. Some of these factors are discussed in greater detail in this Prospectus, in particular, but not limited to, discussion in “*Risk Factors*”. When relying on forward-looking statements, each prospective investor should carefully consider the foregoing factors and other uncertainties and events, especially in light of the political, economic, social and legal environment in which the Group operates. Such forward-looking statements speak only as of the date on which they are made. Accordingly, none of the Issuer and the Guarantors undertakes any obligation to update or revise any of them, whether as a result of new information, future events or otherwise, unless required to do so by applicable law. None of the Issuer and the Guarantors makes any representation, warranty or prediction that the results anticipated by such forward-looking statements will be achieved, and such forward-looking statements represent, in each case, only one of many possible scenarios and should not be viewed as the most likely or standard scenario.



## PRESENTATION OF FINANCIAL AND OTHER INFORMATION

### Presentation of Financial Information

This Prospectus contains (as documents incorporated by reference):

- the unaudited interim consolidated condensed financial statements of the Group as of and for the nine-month period ended 30 September 2019 (the **2019 Interim Financial Statements**);
- the audited consolidated financial statements of the Group as of and for the year ended 31 December 2018 (the **2018 Consolidated Financial Statements**), which include as comparative financial information the audited consolidated financial information of the Group as of and for the year ended 31 December 2017;
- the audited consolidated financial statements of the Group as of and for the year ended 31 December 2017 (the **2017 Consolidated Financial Statements**, together with the 2018 Consolidated Financial Statements, the **Annual Consolidated Financial Statements**), which include as comparative financial information the audited consolidated financial information of the Group as of and for the year ended 31 December 2016;
- the audited consolidated financial statements of GTLKE and its subsidiaries (the **GTLKE Group**) as of and for the year ended 31 December 2018 (the **2018 GTLKE Group Financial Statements**), which include as comparative financial information the audited consolidated financial information of the GTLKE Group as of and for the year ended 31 December 2017;
- the audited consolidated financial statements of GTLKE Group as of and for the year ended 31 December 2017 (the **2017 GTLKE Group Financial Statements** together with the 2018 GTLKE Group Financial Statements, the **GTLKE Group Financial Statements**), which include as comparative financial information the audited consolidated financial information of the GTLKE Group as of and for the year ended 31 December 2016; and
- the audited financial statements of the Issuer for its initial accounting period, which commenced on 17 January 2018 (being its date of incorporation) and ended on 31 December 2018 (the **Issuer Financial Statements**, together with the 2019 Interim Financial Statements, the Annual Consolidated Financial Statements and the GTLKE Group Financial Statements referred to as the **Financial Statements**).

The Annual Consolidated Financial Statements and the 2019 Interim Financial Statements were prepared in accordance with International Financial Reporting Standards (**IFRS**).

The Issuer Financial Statements and GTLKE Group Financial Statements were prepared in accordance with IFRS as adopted by the EU and as issued by the International Accounting Standards Board (**IASB**).

The underlying financial information stated in local currency has been translated into US dollars on the basis set out in “*Currencies and Exchange Rates*” below.

### Alternative Performance Measures

To supplement the Group’s consolidated and unconsolidated financial statements presented in accordance with IFRS, the Group uses certain ratios and measures included in this Prospectus that might be considered to be “alternative performance measures” (each an **APM**) as described in the ESMA Guidelines on Alternative Performance Measures (the **ESMA Guidelines**) published by the European Securities and Markets Authority on 5 October 2015. The ESMA Guidelines provide that an APM is understood as “a financial measure of historical or future financial performance, financial position, or cash flows, other than a financial measure defined or specified in the applicable financial reporting framework”. The ESMA Guidelines also note that they do not apply to APMs “disclosed in accordance with applicable legislation, other than the applicable financial reporting framework, that sets out specific requirements governing the determination of such measures”.

The Group's management believes that the inclusion of APMs, when considered in conjunction with measures reported under IFRS, is useful to investors because it provides a basis for measuring the organic operating performance in the periods presented and enhances investors' overall understanding of the Group's financial performance. APMs should not be considered in isolation from, or as a substitute for, financial information presented in compliance with IFRS. For the Group, measures that might be considered to be APMs in this Prospectus (and that are not defined or specified by IFRS or any other legislation applicable to the Group) include (without limitation) the following (such terms being used in this Prospectus as defined below):

- *Total equity / Total assets ratio*: For a particular date, this as (a) the total equity as of such date as a percentage of (b) the total assets as of such date;
- *Asset yield*: This is calculated using figures derived from the Annual Consolidated Financial Statements and the 2019 Interim Financial Statements (as applicable) as the sum of the amounts of finance lease interest income, income from operating leases, other interest income and operating lease depreciation divided by the amount of the average interest earning assets (which include net investment in leases gross of impairment allowance, assets under operating leases and deposits in banks, which are each presented as a separate line item of the consolidated statement of financial position);
- *Cost of funding*: This is calculated using figures derived from the Annual Consolidated Financial Statements and the 2019 Interim Financial Statements (as applicable) as the amount of interest expense divided by average interest bearing liabilities (which include loans and borrowings received, finance lease liabilities (as set out in the Annual Consolidated Financial Statements) or lease liabilities (as set out in the 2019 Interim Financial Statements), as applicable, and bonds issued); and
- *Administrative expenses / Total assets*: This is calculated using figures derived from the Annual Consolidated Financial Statements and the 2019 Interim Financial Statements (as applicable) as the amount of administrative expenses divided by the amount of average total assets for such period.

Reconciliation for the above APMs to the applicable financial statements is not included as it is not, for the relevant period, required by the ESMA Guidelines in these circumstances, including as a result of Article 29 thereof where the items described in the APM are directly identifiable from the financial statements (e.g. where an applicable APM is merely a calculation of one item in the financial statements as a percentage of another item in the financial statements).

## General Information

In this Prospectus, references to:

- the **Issuer** are to GTLK Europe Capital DAC;
- the **Guarantors** are to Public Joint Stock Company “State transport leasing company” (STLC) and GTLK Europe DAC (**GTLKE**); and
- the **Group** are to STLC together with its consolidated direct and indirect subsidiaries and affiliates (including the Issuer and GTLKE).

In this Prospectus, all references to:

- **Russia** are to the Russian Federation;
- **U.S.** or the **United States** are to the United States of America;
- **UK** or the **United Kingdom** are to the United Kingdom of Great Britain and Northern Ireland;
- **EU** or the **European Union** are to the union formed following ratification of the Maastricht Treaty and as at the date of this Prospectus comprising 27 states but for the purposes of this Prospectus shall include the United Kingdom; and
- **Europe** are to the geographical region of Europe, including the UK and those states which are members of the European Union.

Solely for the purposes of the “*Use and Estimated Net Amount of Proceeds*” section of this Prospectus, all references in that section to:

**Sanctions** are to any sanctions administered or enforced by the U.S. Government, (including, without limitation, OFAC or the U.S. Department of State and including, without limitation, the designation as a “specially designated national” or “blocked person”), the United Nations Security Council, the European Union, the United Kingdom, Her Majesty’s Treasury, or other relevant sanctions authority; and

**Sanctioned Country** are to a country or territory that is the subject or the target of country wide or territory wide Sanctions, being, as at the date of this Prospectus, Cuba, Crimea and Sevastopol, Iran, North Korea and Syria.

### Currencies and Exchange Rates

In this Prospectus, references to **US dollars** or **USD** are to the lawful currency of the United States, references to **Roubles** or **RUB** are to the lawful currency of the Russian Federation and references to **euro** or **EUR** are to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty on the Functioning of the European Union, as amended.

The following tables show, for the periods indicated, certain information regarding the exchange rate between the Rouble and the US dollar, based on the official exchange rate quoted by the Central Bank of the Russian Federation (the **CBR**).

<b>For the period</b>	<b>Roubles per US dollar</b>			<b>Period end</b>
	<b>High</b>	<b>Low</b>	<b>Average<sup>(1)</sup></b>	
Nine months ended 30 September 2018	69.97	55.67	61.45	65.59
Nine months ended 30 September 2019	67.20	62.52	64.86	64.42
<b>For the period</b>	<b>Roubles per US dollar</b>			<b>Period end</b>
	<b>High</b>	<b>Low</b>	<b>Average<sup>(1)</sup></b>	
Year ended 31 December 2018	69.97	55.67	62.71	69.47
Year ended 31 December 2019	67.20	61.72	64.46	61.91

**Note:**

<sup>(1)</sup> *The average of the exchange rates on the last Russian business day (quoted by the CBR for that day) of each full month during the relevant period. It should be noted that the methodology for calculating average rates for a period for the purposes of the Financial Statements is different than the methodology used in this table.*

<b>For each month from December 2019 to January 2020</b>	<b>Roubles per US dollar</b>	
	<b>High</b>	<b>Low</b>
December 2019	64.41	61.72
January 2020	63.04	60.95

The exchange rate between the Rouble and the US dollar on 20 February 2020 was 63.69 Roubles per USD 1.00.

No representation is made that amounts presented in a particular currency in this Prospectus could have been converted into such currency at any particular rate or at all. A market exists for the conversion of roubles into other currencies, but the limited availability of other currencies may tend to inflate their values relative to the rouble. Fluctuations in the exchange rate between the Rouble and the US dollar in the past are not necessarily indicative of fluctuations that may occur in the future.

These rates may also differ from the actual rates used in the preparation of certain information in this Prospectus.

### **Rounding**

Certain amounts that appear in this Prospectus have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures that precede them.

### **Reproduction of Information**

This Prospectus includes (i) in “*Industry Overview*” and elsewhere, market data that the Issuer and the Guarantors have obtained from, and attributed to, the Expert Rating Agency (**Expert RA**) or such other sources as are indicated therein, and (ii) Russian macroeconomic data obtained from information published by the CBR. The Issuer and the Guarantors accept responsibility for having correctly reproduced such information, and, as far as the Issuer and the Guarantors are aware and have been able to ascertain from information published by those industry publications or public sources, no facts have been omitted which would render the reproduced information inaccurate or misleading. Other market share information and other statements in this Prospectus regarding the industry in which the Group operates and the position of the Group relative to its competitors are not based on published statistical data or information obtained from independent third parties. Rather, such information and statements reflect the reasonable estimates of the Issuer and the Guarantors based upon information obtained from trade and business organisations and associations, other contacts within the industry in which the Group operates and from annual reports and information published by other companies operating in the industry in which the Group operates. This information from the internal estimates and surveys of the Group has not been verified by any independent sources.

## ENFORCEABILITY OF JUDGMENTS

The Issuer is incorporated as a designated activity company limited by shares under the laws of Ireland. GTLKE is incorporated as a designated activity company limited by shares under the laws of Ireland. STLC is a public joint stock company incorporated under the laws of the Russian Federation. Substantially all of the Issuer's and the Guarantors' assets are located outside the United Kingdom, and may be located outside other jurisdictions in which investors may be located. In addition, most of the Directors and members of the Issuer's and the Guarantors' senior management are nationals or residents of jurisdictions other than the United Kingdom, and may not be nationals or residents of other jurisdictions in which investors may be located, and all or a substantial portion of their assets are located outside the United Kingdom, and may be located outside other jurisdictions in which investors may be located. In particular, substantially all of the Guarantors' operating assets are located in the Russian Federation and Ireland, and several of the Directors and members of the Issuer's and the Guarantors' senior management are nationals or residents of the Russian Federation and all or a substantial portion of their assets are located in the Russian Federation.

It may be difficult for the Noteholders or the Trustee to enforce, in original actions brought in courts in jurisdictions located outside the United Kingdom, liabilities predicated upon English laws. Courts in the Russian Federation will generally recognise judgments rendered by a court in any jurisdiction outside the Russian Federation only if an international treaty providing for the recognition and enforcement of judgments in civil cases exists between the Russian Federation and the jurisdiction where the judgment is rendered or a federal law is adopted in the Russian Federation providing for the recognition and enforcement of foreign court judgments. No such treaty for the reciprocal recognition and enforcement of foreign court judgments in civil and commercial matters exists between the Russian Federation and certain other jurisdictions, including the United Kingdom, and no relevant federal law on enforcement of foreign court judgments has been adopted in the Russian Federation. As a result, new proceedings may have to be brought in the Russian Federation in respect of a judgment already obtained in any such jurisdiction against the Issuer or its officers or directors or the Guarantors or their respective officers or directors. These limitations, as well as the general procedural grounds set out in Russian legislation for the refusal to recognise and enforce foreign court judgments in the Russian Federation, may significantly delay the enforcement of such judgments or deprive the Issuer, the Guarantors and/or the Noteholders of effective legal recourse for claims related to the investment in the Notes.

In the absence of an applicable treaty, enforcement of a final judgment rendered by a foreign court may still be recognised by a Russian court on the basis of reciprocity, if courts of the jurisdiction where the foreign judgment is rendered have previously enforced judgments issued by Russian courts. However, we are also aware of some instances in which Russian courts have recognised and enforced foreign court judgments (including a judgment of an English court), on the basis of the principle of reciprocity and (in case of enforcement of an English court judgment) the existence of a number of bilateral and multilateral treaties to which both the United Kingdom and the Russian Federation are parties. The courts determined that such treaties constituted grounds for the recognition and enforcement of the relevant English court judgment in Russia. In the absence of established court practice, however, it is difficult to predict whether a Russian court will be inclined in any particular instance to recognise and enforce an English court judgment on these grounds.

Accordingly, it may be difficult or impossible for investors to:

- effect service of process within the United Kingdom or other jurisdictions in which investors may be located, on certain Directors or members of the Issuer's or the Guarantors' senior management;
- enforce judgements obtained in courts in the United Kingdom or other jurisdictions in which investors may be located, against the Issuer's or the Guarantors' assets, against certain Directors or members of the Issuer's or the Guarantors' senior management; or
- enforce, in original actions brought in courts in the Russian Federation, liabilities predicated upon the civil liability provisions of the laws of the United Kingdom or the laws of other jurisdictions in which investors may be located.

The above limitations may deprive investors of effective legal recourse for claims related to an investment in the Notes.

Prospective investors should read the entire document and, in particular, the section headed “*Risk Factors*” when considering an investment in the Notes.

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## OVERVIEW OF THE GROUP

*This overview may not contain all the information that may be important to prospective purchasers of the Notes and, therefore, should be read in conjunction with this entire Prospectus, including the more detailed information regarding the Group's business and the financial statements and related notes included elsewhere in this Prospectus. Prospective purchasers of the Notes should also carefully consider the information set forth under the heading "Risk Factors". Certain statements in this Prospectus include forward-looking statements that also involve risks and uncertainties as described under "Forward-Looking Statements".*

### OVERVIEW

Public Joint Stock Company "State transport leasing company", a company incorporated under the laws of the Russian Federation, is a leading Russian transportation and equipment leasing company with its head office in Moscow and three regional subdivisions in Omsk, St. Petersburg and Grozny. STLC's registered office is at Office 100, Bld. 73, ul. Respubliki, Salekhard, Yamalo-Nenetsky Avtonomny Okrug, Russian Federation, 629008 and its telephone number is +7 34922 474-98 / +7 495 221-00-12. It is wholly owned by the Russian Federation and controlled by it through the Ministry of Transport of the Russian Federation. As of 4 February 2009, the Ministry of Transport of the Russian Federation was appointed to execute shareholder rights under Government Decree No. 93. The Ministry of Transport of the Russian Federation and the Ministry of Industry and Trade also have representation on the Board of Directors of STLC.

The Group provides commercial and non-commercial finance and operating leasing services (see "*Business – The Group'S Business – Leasing operations of the Group – Finance Leasing – Non-commercial finance leases*" and "*Business – The Group'S Business – Leasing operations of the Group – Finance Leasing – Commercial finance leases*") to both Russian and international enterprises. Its principal customers include PJSC "Aeroflot", "Rossiya Airlines" JSC, JSC "Aurora Airlines", JSC "Yamal Airlines", CJSC "IrAero Airlines", Yakutia Airlines, JSC Azimuth Airlines, LCC "Severstal Aircompany" and international enterprises such as easyJet (United Kingdom), Silk Way Airlines (Azerbaijan), SIA "Smartlynx Airlines" (Latvia), Alia-Royal Jordanian Airline PLC (Hashemite Kingdom of Jordan), GÜNEŞ EKSPRES HAVACILIK A.Ş. d/b/a SUN EXPRESS (Turkey) and SunExpress Deutschland GmbH (Germany) in aviation leasing; Modum-Trans, TGK, First Industrial Operator, Rail 1520 Service (United Wagon Company Group), SG-Trans and PJSC "Central exurban passenger company" in railway leasing; and BF Tanker, Pola Group and Havila Kystruten (Norway) in maritime leasing. Such leases are principally provided for the leasing of transportation assets in the aviation, maritime and rail sectors, as well as large and high-tech equipment in the transportation infrastructure sector.

The Group is currently involved in implementing or developing nine key government programmes: (i) the development of operating leasing of Sukhoi Superjet 100 aircraft; (ii) regional programmes to improve energy efficiency in the transport sector; (iii) finance leasing of passenger rolling stock for local commuter services; (iv) a programme for the development of water transport leasing and ferry services; (v) a programme for the support of the national helicopter industry; (vi) a programme for the development of regional small aircraft; (vii) a programme for the development of the leasing of domestically built dry cargo ships and high-speed passenger vessels; (viii) a programme for the development and adoption of domestic technologies and digital platform solutions aimed at the digital transformation of the national transport industry; and (ix) a programme for the development and support of sales of IL-96-400M aircraft, which is expected to commence in 2020.

STLC established GTLK Europe Limited which was incorporated in Ireland in 2012 in order to facilitate aviation and maritime leasing. In September 2016, GTLK Europe Limited was re-registered pursuant to the Companies Act 2014, as amended (the **Companies Act**) as a "designated activity



company limited by shares” (or “DAC limited by shares”) under the name GTLK Europe DAC and therefore has the status of a private company limited by shares registered under the Companies Act. The GTLKE Group accounts for 30 per cent of the Group’s total assets as at 30 September 2019 and accounts for 41 per cent of the Group’s revenues for the nine month period ended 30 September 2019. GTLKE’s main business is further described below (see “*GTLK Europe DAC – Principal Activities*”).

STLC established the Issuer which was incorporated in Ireland in January 2018 in order to provide debt financing for the business operations of STLC and GTLKE. The Issuer may engage in all activities necessary, customary, convenient or incidental to the foregoing. Since its incorporation, the Issuer has not engaged in any material activities other than relating to the issue of the Notes. The Issuer is further described below (see “*The Issuer*”).

The Group is a key player in many of the leasing sectors in Russia in which it operates. For example, according to Expert RA, the Group was ranked as the largest leasing company by size of lease portfolio and the second largest by volume of new business transactions in the Russian Federation, as at 30 September 2019. In addition, according to Expert RA, the Group retained its leading position in key sectors ranking as the largest leasing company in aviation transportation, railway and maritime segments by size of lease portfolio as at 30 September 2019.

As at 31 December 2018, the Group had RUB 521,496 million in total assets (as compared to RUB 340,585 million as at 31 December 2017); RUB 434,691 million in total liabilities (as compared to RUB 275,324 million as at 31 December 2017), RUB 86,805 million in total equity (as compared to RUB 65,261 million as at 31 December 2017) and an aggregate lease portfolio of RUB 403,317 million gross of impairment allowance (as compared to RUB 271,437 million as at 31 December 2017 (comprising net investment in leases in the amount of RUB 137,066 million and assets leased out under operating leases in the amount of RUB 134,371 million)). As at 31 December 2018, the Group’s ratio of total equity to total assets was 16.6 per cent (compared to 19.2 per cent as at 31 December 2017).

As at 30 September 2019, the Group had RUB 628,986 million in total assets; RUB 540,432 million in total liabilities; RUB 88,554 million in total equity and an aggregate lease portfolio of RUB 500,013 million gross of impairment allowance (composed of net investment in leases gross of impairment allowance in the amount of RUB 298,322 million and assets leased out under operating leases gross of impairment allowance in the amount of RUB 201,691 million). As at 30 September 2019, the Group's ratio of total equity to total assets was 14.1 per cent.

For the year ended 31 December 2018, the Group generated total interest income, being the sum of finance lease interest income and other interest income, of RUB 22,966 million (as compared to RUB 14,689 million for the year ended 31 December 2017); interest expense of RUB 24,511 million (as compared to RUB 17,502 million for the year ended 31 December 2017); non-interest income, being income from operating leases and other operating income and recovery of provisions, of RUB 24,585 million (as compared to RUB 16,161 million for year ended 31 December 2017); and operating lease expenses of RUB 2,471 million (as compared to RUB 2,087 million for the year ended 31 December 2017). Profit for the year 2018 amounted to RUB 607 million (as compared to losses of RUB 3,835 million for the year ended 31 December 2017). The loss recorded for 2017 was mainly the result of a one-off impairment provision for the Group’s obligations relating to an embedded RUB/USD exchange rate clause in a loan agreement entered into by the Group and was not caused by any operational decline or deterioration in macro-economic conditions or asset or portfolio quality.

For the nine-month period ended 30 September 2019, the Group generated total interest income, being the sum of finance lease interest income and other interest income, of RUB 23,458 million (as compared to RUB 16,192 million for the nine-month period ended 30 September 2018); interest expense of RUB 24,532 million (as compared to RUB 17,503 million for the nine-month period ended 30 September 2018); non-interest income, being income from operating leases and other operating

income, of RUB 21,444 million (as compared to RUB 17,553 million for the nine-month period ended 30 September 2018); and no amounts were recorded as operating lease expenses (as compared to RUB 1,746 million for the nine-month period ended 30 September 2018). Profit for the nine-month period ended 30 September 2019 amounted to RUB 2,452 million (as compared to RUB 523 million for the nine-month period ended 30 September 2018).

## STRATEGY

As a state-owned company, the Group's strategy is influenced by the Ministry of Transport of the Russian Federation and subject to approval by the Prime Minister and Cabinet of Ministers and STLC's strategy is therefore based on its function as a tool for implementing government policy, primarily through STLC's non-commercial leasing programmes to support modernisation in the transport sector and the implementation of anti-crisis measures to support the Russian economy. STLC's strategy for both its commercial and non-commercial operations is as follows:

- implementation of government support of the transport sector: STLC acts as an agent under several state programmes aimed at the development of the transport sector in the Russian Federation. These include: (i) the development of operating leasing of Sukhoi Superjet 100 aircraft (described in further detail in the paragraph below); (ii) regional programmes to improve energy efficiency in the transport sector; (iii) finance leasing of passenger rolling stock for local commuter services; (iv) a programme for the development of water transport leasing and ferry services; (v) a programme for the support of the national helicopter industry; (vi) a programme for the development of regional small aircraft; (vii) a programme for the development of the leasing of domestically built dry cargo ships and high-speed passenger vessels; and (viii) a programme for the development and support of sales of IL-96-400M aircraft, which is expected to commence in 2020;
- promotion of the Sukhoi Superjet 100 aircraft through the implementation of a large-scale operating lease programme, which is co-financed by the Russian Federation. STLC received two capital contributions of RUB 30,000 million in 2015 and RUB 4,000 million in 2016 under this programme, and additional budget funding in the form of budgetary subsidies of RUB 9,800 million in 2018 and RUB 2,029.4 million in 2019;
- attracting non-budget financing for the development of the transport sector: STLC's programmes are developed on a co-financing principle and promote private investments in projects in the transport sector, backed by governmental support in the form of direct funding which is the most attractive to investors. STLC is also a member of the Russia-China commission on co-operation in the transport sector, where STLC presents potentially attractive projects to foreign investors and raises international funding for the transport sector from a broader range of international financial institutions;
- support of the transport machinery sector in Russia: programmes being implemented by STLC create and enhance demand for Russian transport machinery helping to implement the government's objective of reducing reliance on imports;
- international expansion of the Group's business: one of the key objectives of the Group for the period from 2019 to 2024 is increasing its international market representation through a global leasing platform, GTLK GLOBAL BUSINESS, which was established in 2018 with the participation of GTLKE (Ireland), GTLK Asia (Hong Kong) and GTLK Middle East (Dubai) (**GTLK Global**). This platform is intended to be used for increasing the Group's client base across various geographies and optimising the costs of non-budget financing raised by the Group through co-operation with international financial institutions. The key objectives of the GTLK Global will be the development of the international aviation and maritime leasing business, as well as the diversification of funding sources for the Group.

Furthermore, one of the strategic goals of this platform will be to promote the export of Russian high-technology products, including the Sukhoi Superjet 100 and the MC-21 aircraft, civil (non-military) helicopters produced by JSC “Russian Helicopters” and other products, as well as the establishment of service centres and spare parts depots for the maintenance of Russian-built vehicles abroad; and

- digital transformation and improvement of the Group's operating efficiency: one of the key objectives of the Group for the period from 2019 to 2024 is digitalisation aimed at (i) the enhancement of operating activities and the improvement of the Group's management system; (ii) the digital transformation of the Russian Federation's transport industry through the implementation of digital ecosystem establishment measures and the development of transport-related digital services; and (iii) the arrangement of conditions for the financing of digital technology project development and adoption.

Pursuant to the above strategies, the Group intends to consolidate its strong position in the Russian domestic leasing market and expand its international market representation by:

- further diversifying and expanding its lease portfolio by increasing the volume of lease transactions entered into in the transportation, machinery and industrial equipment sectors (mainly transport infrastructure projects) in order to ensure that the Group is not overly dependent on any one sector, or related sectors, or on a particular client or group of clients, for the continued growth and success of its business;
- continuing to focus on aviation leasing both through the leasing of internationally manufactured aircraft and the Sukhoi Superjet 100 programme. Aircraft industry and airport services (**Aviation Leases**) made up 49.05 per cent of the Group's aggregate lease portfolio (gross of impairment allowance) as at 30 September 2019, compared to 50.04 per cent as at 30 September 2018, 49.87 per cent as at 31 December 2018 and 51.20 per cent as at 31 December 2017. See “*Business – The Group's Business – Leasing operations of the Group*” for more detailed information on the Group's leasing operations. The overall dynamics in the segment principally reflect the need for many Russian airlines to modernise their fleets and the desire of the Russian Federation to support this and, in particular, to develop the Sukhoi Superjet 100 and the on-going operations of the Group in the international aviation leasing market;
- increasing the Group's rail and maritime lease portfolio in absolute terms, although their respective shares of the total portfolio are expected to remain substantially unchanged due to the Group's continued focus on aviation operating leases, both through the leasing of internationally manufactured aircraft and the Sukhoi Superjet 100 programme;
- diversifying its sources of funding and attracting extra-budgetary investment into the development of the transport infrastructure industry by increasing its exposure to the domestic and international capital markets, including through the issue of debt securities such as the Notes, and borrowing from a range of domestic and international banks;
- assessing acquisition opportunities on a case-by-case basis in order to achieve its above objectives for the diversification and expansion of its lease portfolio, rail leasing business, aviation leasing business and other services by way of acquisition where appropriate opportunities for any such acquisitions arise. Whilst the Group continues to seek and identify such acquisition opportunities, such acquisitions have, in the past, been, and may, in the future, be, prohibited by the Federal Antimonopoly Service of the Russian Federation which may impact on the ability of the Group to achieve this objective; and

- implementing digital transformation measures and participation in the financing of projects for the development and adoption of domestic technologies and platform solutions aimed at the digital transformation of the Russian transport and logistics industries. For instance, in December 2019, STLC received a capital injection from the state in the amount of RUB 3 billion for the financing of leases under the federal project “Digital technologies” as part of the national programme “Digital Economy of the Russian Federation”.

Although STLC’s strategy is aligned with the Russian Federation’s and the Ministry of Transport’s priorities, any such goals do not override STLC’s general corporate aims, including the generation of profit and focus on commercial projects. Although higher return levels are not a key priority point for STLC’s shareholder, management believes that it is crucial to maintain, and is therefore focused on profitable operations. STLC’s management also focuses on maintaining the financial stability of STLC while realising its aims as an agent of the Russian Federation, as well as realising necessary digital transformation and improvement of operating efficiency.

STLC’s operations are currently primarily commercial. Its non-commercial operations, as at the date of this Prospectus, consist of the eight key government programmes listed under “*Overview*” above.

### **COMPETITIVE STRENGTHS**

The Group believes that it enjoys the following key competitive strengths that it believes will enable it to meet its strategic objectives:

- **The Group’s ownership and support:** the Group is owned by the Russian Federation and controlled by the Ministry of Transport with input from the Ministry of Industry and Trade. This provides the Group with important management, advisory, financial and staffing support from the Ministry and allows it to benefit strongly from its association with the State, and to provide additional credibility in its implementation of the Russian Government’s policies for the support of domestic business and the development of the Russian economy and financial system. The Group also benefits from capital support from the State, for example benefiting from a series of capital increases and receipt of budgetary subsidies of approximately RUB 92.8 billion in aggregate during the period from 2015 to 2019 under various state development programmes (see below).
- **Leading market position:** the Group enjoys a leading position in the Russian leasing market, which the Group believes it can leverage to further grow and develop its business and expand into new leasing markets. The Group enjoys a strong relationship with its key customers being PJSC “Aeroflot”, “Rossiya Airlines” JSC, JSC “Aurora Airlines”, JSC “Yamal Airlines”, CJSC “IrAero Airlines”, Yakutia Airlines, JSC Azimuth Airlines, LCC “Severstal Aircompany” and international enterprises such as easyJet (United Kingdom), Silk Way Airlines (Azerbaijan), SIA “Smartlynx Airlines” (Latvia), Alia-Royal Jordanian Airline PLC (Hashemite Kingdom of Jordan), GÜNEŞ EKSPRES HAVACILIK A.Ş. d/b/a SUN EXPRESS (Turkey) and SunExpress Deutschland GmbH (Germany) in aviation leasing; Modum-Trans, TGK, First Industrial Operator, Rail 1520 Service (United Wagon Company Group), SG-Trans and PJSC “Central exurban passenger company” in railway leasing; and BF Tanker, Pola Group and Havila Kystruten (Norway) in maritime leasing which will be increasingly important drivers of the business as the Group focuses on these three key sectors.
- **Diversified leasing portfolio with stable credit quality:** the Group’s leasing portfolio is well diversified across key business segments and asset classes.
- **Access to funding:** the Group operates in a capital-intensive industry and, accordingly, ease of access to funding is a key strength for its continued growth. The Group has been able to attract competitive funding from third-party domestic and international banks and in the

domestic capital markets, which has allowed it to diversify its funding base (see “*Selected Financial Review – Funding*”). The government support means the Group has strong financing potential and has been able to enjoy a relatively stable cost of funding despite difficult market conditions. From January 2015 to December 2017, the Russian Government made a series of contributions to STLC’s charter capital in the amount of RUB 58,636.13 million in aggregate. In 2018, additional budget financing was allocated to STLC in the form of budgetary subsidies in the amount of RUB 20.7 billion. RUB 14.8 billion of this amount was received by STLC by 31 December 2018 and RUB 5.9 billion was recorded as other receivables as at 31 December 2018, as discussed in more detail in Note 23 to the 2018 Consolidated Financial Statements. STLC received the RUB 5.9 billion financing on 29 March 2019. In December 2019, STLC received budget funding in the total amount of RUB 13.55 billion to finance various state programmes, including a RUB 3 billion capital injection for the financing of leases under the federal project “Digital technologies” as part of the national programme “Digital Economy of the Russian Federation”. The federal budget of the Russian Federation for 2020 and the projected period of 2021 and 2022 also makes provisions for additional budgetary subsidies to STLC of RUB 13.8 billion aimed at supporting the sales of IL-96-400M aircraft in 2020 and RUB 5 billion for the purchase and further lease of domestically built vessels in 2021.

- Strong and experienced senior management: each member of the senior management team of the Group has extensive experience in leasing, banking and finance. Since the Group’s establishment, the senior management team has guided STLC through a period of growth and diversification, has dealt with the challenges of the global financial crisis, and has the experience to continue to implement STLC’s strategic objectives and strong segment expertise in aviation, railcars and maritime leasing.
- Experience in executing complex leasing transactions: through the experience of STLC’s senior management team, and its key employees, together with its experience in executing complex transactions (gained largely as a result of its participation in large-scale infrastructure projects, and equipment acquisitions for large rail companies and airlines), STLC has offered and continues to be in a position to offer its customers a service tailored to their individual leasing requirements.

## **RISK FACTORS**

An investment in the Notes involves a high degree of risk. For a detailed discussion of the risks and other factors to be considered when making an investment decision with respect to the Notes, see “*Risk Factors*”.

## OVERVIEW OF THE OFFERING

*The following is an overview of the terms of the Securities. This overview is indicative only, does not purport to be complete and is qualified in its entirety by the more detailed information appearing elsewhere in this Prospectus. In particular, this overview is derived from, and should be read in conjunction with, the full text of the Terms and Conditions of the Notes (the **Conditions**) and the Trust Deed constituting the Notes, which prevail to the extent of any inconsistency with the terms set out in this overview. Capitalised terms used herein and not otherwise defined have the respective meanings given to such terms in the relevant Conditions.*

Notes being offered	USD 600,000,000 4.65 per cent guaranteed notes due 2027
Issuer	<b>GTLK Europe Capital DAC</b> LEI: 635400I6H6CSZ39WIN49
Guarantors	<b>Public Joint Stock Company “State transport leasing company”</b> LEI: 253400AZ1GVUT9AB6E44 Website: <a href="https://www.gtlk.ru/en/">https://www.gtlk.ru/en/</a>  and  <b>GTLK Europe DAC</b> LEI: 635400FDT7BRRHTMEC11 Website: <a href="https://www.gtlkeurope.com/">https://www.gtlkeurope.com/</a>
Joint Lead Managers and Joint Bookrunners	Bank GPB International S.A. (Gazprombank), Citigroup Global Markets Limited, J.P. Morgan Securities plc, PJSC Sovcombank, Renaissance Securities (Cyprus) Limited, Sova Capital Limited and VTB Capital plc
Issue price	100 per cent
Maturity date	10 March 2027
Interest	The Notes will bear interest at the rate of 4.65 per cent per annum from and including the Issue Date.
Interest payment dates	Interest on the Notes will be payable semi-annually in arrear on 10 March and 10 September of each year starting on 10 September 2020.
Ranking of the Notes and the Guarantees	<p>The Notes will constitute direct, unsubordinated and (subject to Condition 4.1) unsecured obligations of the Issuer and shall at all times rank <i>pari passu</i> and rateably without any preference among themselves.</p> <p>Each Guarantee will constitute direct, unsubordinated and (subject to Condition 4.1) unsecured obligations of the relevant Guarantor.</p> <p>The Issuer and each Guarantor shall ensure that at all times the claims of the holders of the Notes against them under the Notes and the Guarantees, respectively, rank in right of payment at least <i>pari</i></p>

	<p><i>passu</i> with the claims of all of their other present and future unsecured and unsubordinated creditors, save those whose claims are preferred by any mandatory operation of law.</p>
Use and Estimated Net Amount of proceeds	<p>The estimated net proceeds to the Issuer from the issue of the Notes are expected to be approximately USD 597,000,000 which the Issuer intends to lend within the Group. The Group intends to use such proceeds for the general corporate purposes of the Group, including the refinancing of the Group's existing indebtedness.</p>
Further issues	<p>The Issuer may from time to time, without the consent of the holders of the Notes, create and issue further securities having the same terms and conditions as the Notes in all respects (or in all respects save for the first payment of interest thereon) so that such further issue shall be consolidated and form a single series with the outstanding Notes. Any such other securities shall be constituted by a deed supplemental to the Trust Deed and will benefit from guarantees substantially in the form of the Guarantees. See "<i>Terms and Conditions of the Notes</i>".</p>
Additional amounts	<p>In the event that withholding taxes imposed in any Relevant Jurisdiction (as defined in Condition 20) are required to be withheld or deducted from payments on any of the Notes, the Issuer or the Guarantors under the Guarantees will, subject to certain exceptions described in this Prospectus, pay such additional amounts so as to result in the receipt by the Noteholders of such amounts as would have been received by them if no such withholding or deduction had been required. See "<i>Terms and Conditions of the Notes</i>".</p>
Redemption for tax reasons	<p>The Notes may be redeemed early at the option of the Issuer, in whole but not in part, at any time at 100 per cent of the principal amount thereof plus accrued and unpaid interest and additional amounts, if any, to the date fixed for such early redemption if certain events occur that would require the Issuer to pay additional amounts, as described under "<i>Terms and Conditions of the Notes</i>".</p>
Redemption for Change of Control	<p>Upon the occurrence of a Change of Control (as defined in the Terms and Conditions of the Notes) the Notes may be redeemed at the option of a Noteholder at 100 per cent of their principal amount together with accrued, but unpaid, interest (if any). See "<i>Terms and Conditions of the Notes – Redemption and Purchase – Redemption on a Change of Control</i>".</p>
Optional Redemption at Make-Whole Prepayment Amount	<p>The Issuer may, at any time, on giving not less than 30 nor more than 60 days' notice to the Noteholders and to the Trustee and Agents, redeem the Notes in whole (but not in part) at the Make Whole Prepayment Amount (as defined in the Terms and Conditions of the Notes) plus accrued and unpaid interest on the Notes so redeemed to but excluding the Make Whole Optional Prepayment Date (as defined in the Terms and Conditions of the Notes). See "<i>Terms and Conditions of the Notes – Redemption and Purchase – Optional Redemption at Make-Whole</i>".</p>
Optional Redemption at Par	<p>The Issuer may, at any time on or after the date falling three months</p>

	<p>prior to the Maturity Date, on giving not less than 30 nor more than 60 days' notice to the Noteholders and to the Trustee and Agents, redeem the Notes in whole or in part at the principal amount thereof plus accrued and unpaid interest on the Notes so redeemed to but excluding the Par Optional Prepayment Date (as defined in the Terms and Conditions of the Notes). See "<i>Terms and Conditions of the Notes – Redemption and Purchase – Optional Redemption at Par</i>".</p>
Form and denomination	<p>The Notes will be in registered form, without interest coupons attached, in denominations of USD 200,000 or multiples of USD 1,000 in excess thereof.</p> <p>The Notes will be issued in the form of the Global Certificate, in registered form without interest coupons. The Global Certificate will be deposited with and registered in the name of a nominee for The Bank of New York Mellon, London Branch, a common depository for Euroclear and Clearstream, Luxembourg. Ownership interests in the Global Certificate will be shown on, and transfer thereof will be effected only through, records maintained by Euroclear, Clearstream, Luxembourg and their respective participants. Notes in definitive form will be issued only in limited circumstances.</p>
Listing and Trading	<p>Application has been made to Euronext Dublin for the Notes to be admitted to the Official List and to trading on the Regulated Market. The Regulated Market is a regulated market for the purposes of Directive 2014/65/EU of the European Parliament and of the Council on markets in financial instruments.</p>
Events of Default and certain covenants	<p>The terms and conditions of the Notes contain events of default and covenants (including a cross acceleration provision and a negative pledge) as described further in "<i>Terms and Conditions of the Notes</i>".</p>
Trustee	<p>BNY Mellon Corporate Trustee Services Limited</p>
Principal Paying Agent	<p>The Bank of New York Mellon, London Branch</p>
Registrar and Transfer Agent	<p>The Bank of New York Mellon SA/NV, Luxembourg Branch</p>
Governing law	<p>The Notes and the Trust Deed and any non-contractual obligations arising out of or in connection therewith shall be governed by and construed in accordance with English law.</p>
Risk factors	<p>Prospective purchasers of the Notes should consider carefully all of the information set forth in this Prospectus and, in particular, the information set forth under "<i>Risk Factors</i>" below before making an investment in the Notes.</p>
Selling restrictions	<p>The Notes are subject to selling restrictions in the United States, the United Kingdom, the European Economic Area, Ireland and the Russian Federation. See "<i>Subscription and Sale</i>".</p>
Security Codes	<p>ISIN: XS2131995958 Common Code: 213199595</p>
Expected Rating of the Notes	<p>Ba2 Moody's, BB+ Fitch</p>



A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation.

As of the date of this Prospectus, Moody's and Fitch are established in the European Union (which, for these purposes, includes the UK), are registered under the CRA Regulation and are listed in the list of rating agencies available on the European Securities and Markets Association website. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating agency.

## RISK FACTORS

*An investment in the Notes involves a high degree of risk. Investors should carefully consider the following information about these risks, together with the information contained in this Prospectus, before they decide to buy the Notes. The actual occurrence of any of the following risks could adversely affect the Group's operating results and financial condition. In that case, the value of the Notes could also decline and investors could lose all or part of their investment.*

*The risks and uncertainties discussed below are those that the Group believes are material, but these risks and uncertainties may not be the only ones that the Group faces. Additional risks and uncertainties, including those of which the Group's management is not currently aware or deems immaterial, may also have an adverse effect on the Group's operating results and financial condition or result in other events that could lead to a decline in the value of the Notes.*

*Investors in entities operating in emerging markets such as Russia should be aware that these markets are subject to greater risk than more developed markets, including in some cases significant political, economic and legal risks. Investors should also note that such emerging and frontier economies are subject to rapid change and that the information set out in this Prospectus may become outdated relatively quickly. Accordingly, investors should exercise particular care in evaluating the risks involved and must decide for themselves whether, in light of those risks, their investment is appropriate. Generally, investing in emerging and frontier markets is only suitable for sophisticated investors who fully appreciate the significance of the risks involved, and investors are urged to consult with their own legal and financial advisers before making an investment in the Notes.*

Terms used in this section and not otherwise defined shall have the meanings given to them in “*Terms and Conditions of the Notes*”.

### **RISKS RELATED TO THE RUSSIAN GOVERNMENT AS THE GROUP'S SHAREHOLDER**

#### **The interests of the Group's shareholder (the Russian Government) may conflict with those of the Noteholders**

The Group is wholly owned by the Russian Government and controlled through the Ministry of Transport of the Russian Federation. The Russian Government is therefore able to determine the outcome of all matters concerning the Group that may be decided by shareholders and can appoint and remove the Group's directors and management. Accordingly, the Russian Government could cause the Group to pursue transactions, even though such transactions may involve increased risk for the Group and, consequently, for the Noteholders.

The Group's operations are primarily commercial. Its non-commercial operations are, as at the date of this Prospectus, focused on the Sukhoi Superjet 100 programme and certain infrastructure projects (transport energy efficiency, maritime ferry lines operations, and regional air transportation) as further described in “*Business – The Group'S Business*”. Although the Group retains autonomy to determine day-to-day commercial matters, its overall strategy and, therefore, indirectly the focus of its lease portfolio is prescribed by the Russian Government. The Group's strategic priorities, and therefore its lease portfolio concentrations, may not necessarily reflect the priorities of the Group's competitors. For example, one of the Russian Government's aims has been the implementation of a large-scale transportation infrastructure investment programme to increase demand for domestic industry and attract private sector investment and thus to boost the economy and facilitate growth. The Group is the state's “launching pad” for initiating such large-scale infrastructure projects and to attract private investment to the transport industry. The influence of the Russian Government is thus exercised through the adoption of further support programmes for the transportation infrastructure and

equipment leasing sector. This may mean that the Group does not and will not focus primarily on profit and leases relating to Russian Government priorities may be offered below market rates. Certain of the projects the Group undertakes or finances, and to which the Group provides leasing, may not therefore be projects that other banks or leasing companies would consider commercially viable and may therefore involve increased risks for the Group in terms of both credit and net profit. The Russian Government may reduce such support programmes over time which would have an impact on the level of business and capital support of the Group. As of 30 September 2019, the Group's non-commercial leases made up 28 per cent of its finance lease portfolio and 30 per cent of its operating lease portfolio.

Further, the Russian Government could cause the Group to make large dividend payments or other distributions or payments to shareholders that are designed to implement the policy of the Russian Government rather than benefit the Group. For example, in 2016, STLC distributed 100 per cent of its net profit (RUB 35 million) (less statutory reserves and the Audit Committee remuneration) for the 2015 financial year. As a state-owned company STLC is subject to a statutory requirement to distribute at least 25 per cent of its net profit for the relevant period to its shareholder. Although the minimum distribution required is 25 per cent of the net profit, the Group targeted to distribute of 50 per cent of its net profit with respect to the financial year ended 31 December 2018. Although there are no further regulatory requirements on the payment of dividends in addition to this minimum distribution obligation, from time to time STLC may receive recommendations from the Ministry of Transport or the Russian Government to distribute more than 25 per cent of its net profit to its shareholder.

In addition, the Group enters into lease agreements with various state-owned bodies, which may originate from the fact that the Group is itself state-owned and may be on terms that may not be the same as the market may give on account of the above strategic priorities of the Group.

As a result of the above factors, the Group may not make commercial returns on such activities which may affect its financial condition and results of operations. The interests of the Group's management may, in some circumstances, conflict with the interests of Noteholders and any such conflict could have a material adverse effect on a Noteholder's investment in the Notes. In addition, any change in the Group's status, particularly in relation to the provision of funding by the Russian Government, or the referral of leasing transactions, or its ownership, or a failure by the Group to source alternative funding, or a shift in government policy towards the Group resulting in the loss of state-owned customers, together with the risks inherent in providing finance leasing in relation to development projects which may not be considered commercially viable, could have a material adverse effect on the Group's business, financial condition and results of operations and the value of the Notes.

### **The Group and some of its customers would be adversely affected if it and they did not continue to receive capital support from the Russian Government**

In terms of both funding and revenues, the Group has (and some of its customers, including Aeroflot, have) historically been, and continue to be, reliant on the Russian Government to a significant extent. The Russian Government is a significant source of the Group's funding and subsidies/grants for some of the Group's customers.

As such, to date the Group has received substantial capital support of approximately RUB 103 billion from the Russian Government to develop its non-commercial leasing programmes. For further information on financial support from the Russian Government, see "*Selected Financial Review – Funding – Financial Support from the Russian Federation*". However, the Russian Government is not providing any guarantees in connection with the Notes. If the Russian Government were to reduce or cease its funding of the Group in the future or not make any of the anticipated capital injections discussed above, there may be a material adverse effect on the Group's business and financial position.

Similarly, any reduction in state funding of, or a reduction in subsidies or grants given to, any of the Group's customers could result in a fall in lease volumes or a failure of such lessees meeting their obligations under outstanding leases. In 2018-2019, a number of the Group's customers who receive state subsidies experienced delays in receiving such contributions because of delays in funds being distributed under the state budget, with the result that the Group had to provision for non-payment and default of such leases in the 2018 Consolidated Financial Statements and the 2019 Interim Financial Statements. Although these customers are expected to make payments under their leases once the state funding has been paid out under the state budget, there can be no assurance that future delays in the distribution of state funds to either the Group or its customers will not occur and such delays may have a negative effect on the Group's financial position. This would also have a negative effect on the Group's business, credit quality and financial position.

## **RISKS RELATED TO THE GROUP'S CURRENT OPERATIONS**

### **There is currently no developed market for Sukhoi Superjet 100 aircraft**

One of the Group's key projects is the supply of the Sukhoi Superjet 100 which, in the future, is expected to constitute a significant part of the Group's assets under leases. There are certain risks associated with the fact that there is currently no developed market for Sukhoi Superjet 100 aircraft. There are a number of uncertainties in connection with technological and logistical support from the manufacturer of the aircraft, and the appropriate network for spare parts supplies and maintenance still needs to be developed, especially with the plans to expand this internationally. The maintenance and repair of the Sukhoi Superjet 100 aircraft (by the lessees or the Group) may be difficult in these circumstances. The Group, with the support of the Ministry of Industry and Trade of the Russian Federation, uses its best endeavours to mitigate such risks by performing the function of spare parts procurement agent for its clients, building up sufficient stock of spare parts and liaising with the manufacturer of the aircraft to have pre-agreed servicing programmes in place. On 5 May 2019, there was an accident involving a Sukhoi Superjet 100 aircraft, which did not have a material impact on the Group's implementation of the Sukhoi Superjet 100 programme. However, there remain significant risks in the actual performance and operation of Sukhoi Superjet 100 aircraft for the carriers which may adversely affect the market share attributed to Sukhoi Superjet 100 aircraft in comparison with other established types of aircraft. This can affect the ability of the relevant assets to produce sustainable cash flows for the Group and thus affect the efficiency of its operations.

### **The Group has some very significant client concentrations and the nature of the Group's business and the industry lessee and client concentrations in the Group's lease portfolio make it vulnerable to volatility and to downturns in certain sectors and with respect to certain clients**

The nature of lease transactions, which tend to relate to the financing of big-ticket assets which customers will not necessarily acquire on a regular basis, means that the Group's assets, revenues and ultimately net profit are subject to significant volatility from one period to the next. The Group's lease portfolio also has relatively high industry and customer concentrations. As at 30 September 2019, the aviation, rail and maritime transport sectors accounted for 49.05 per cent, 36.11 per cent and 10.22 per cent, respectively, of the Group's aggregate lease portfolio (gross of impairment allowance) as described in "*Business – The Group's Business*". Furthermore, as at 30 September 2019, the Group's largest lessee, being PJSC "Aeroflot", represented 18.5 per cent of the Group's aggregate lease portfolio (gross of impairment allowance), see table on page 89 of "*Business – The Group's Business*" for a breakdown of the Group's aggregate lease portfolio. The Group's financial condition is therefore extremely sensitive to downturns in the transportation and transportation infrastructure sectors and the financial condition of the Group's largest customers, especially the Aeroflot group. Although the Group continues to take measures to diversify its lease portfolio, including increasing focus on operating leasing alongside finance leasing, there can be no assurance that it will be able to achieve or maintain a greater level of diversification in its lease portfolio, and a failure to do so could

have a material adverse effect on the Group's business, financial condition, results of operations and prospects and the value of the Notes.

### **Movements in foreign currency may negatively impact the Group**

A significant portion of the Group's lease portfolio is denominated in foreign currencies (see the detailed breakdown in the chart below), in particular its aviation assets which are sourced internationally and often purchased in US dollars. These are likely to be an increasing part of the portfolio in the future. As of 30 September 2019, the share of RUB and US dollar denominated leases in the aggregate lease portfolio (gross of impairment allowance) amounted to 62 per cent and 38 per cent, respectively, as compared to 64 per cent and 36 per cent, as of 31 December 2018. Foreign currency risk arises where Group assets denominated in a foreign currency are either greater or lesser than its liabilities in that currency.

31 December 2018

<i>Currency</i>	Net investment in leases before impairment allowance / Net operating leases (RUB millions)	Percentage of aggregate lease portfolio (per cent)
RUB	258,816	64.2
USD	144,501	35.8
<b>Aggregate lease portfolio</b>	<b>403,317</b>	<b>100</b>

*Source: 2018 Consolidated Financial Statements*

The exchange rate of the Rouble against the US dollar has been volatile in recent years, a trend which continued in 2018, 2019 and in 2020 (to the date of this Prospectus), ranging from a high of RUB 69.97 per US dollar to a low of RUB 55.67 per US dollar. For the year ended 31 December 2018, net loss on foreign exchange and derivative financial instruments of the Group amounted to RUB 83 million as compared to the gain on foreign exchange and derivative financial instruments of RUB 477 million for the year ended 31 December 2017. For the nine-month period ended 30 September 2019, net gain on foreign exchange translation of the Group amounted to RUB 69 million as compared to foreign exchange translation loss of RUB 68 million for the nine-month period ended 30 September 2018. (See also "Selected Financial Review – Impairment losses and other Provision Charges").

Although the Group typically funds itself on a matched basis and seeks to mitigate imbalances in the foreign currency structure of its assets and liabilities through contractual provisions in its lease agreements allowing the Group to change the currency of payment, a significant change in the Group's foreign currency assets or liabilities as against its Rouble denominated assets or liabilities could materially adversely affect the Group's business, financial condition, results of operations and prospects and the value of the Notes.

### **RISKS RELATED TO THE GROUP'S BUSINESS AS A LEASING COMPANY**

#### **There is a lack of reliable credit quality information about lessees in the Russian Federation which could result in the Group being unable to properly assess the risk of some of its leases**

Due to a lack of frequent and reliable information on lessees in the Russian Federation, the Group historically has had to rely, to a large extent, on statutory financial statements of its lessees (which are not prepared under IFRS or other international GAAP) to evaluate their financial performance and monitor credit quality. The limited scope of the assessment and monitoring procedures based on such statutory financial statements, together with insufficient internal co-ordination of the collection of information from lessees and the analysis of such information by the Group and between the relevant

departments within the Group, as well as weaknesses in the Group's risk management systems, internal models and expertise could result in the Group not being aware of events of default or potential events of default under a lessee's other financial commitments on a timely basis and of the risks posed by a particular lessee. The Group has taken, and continues to take, steps to co-ordinate and accelerate data collection and analysis to prevent such deficiencies in the future. However, the general limitations of frequent and reliable information about lessees in the Russian Federation may result in the Group not being able to undertake a full credit analysis of each of its lessees, which could have a material adverse effect on the Group's business, financial condition, results of operations and prospects and the value of the Notes.

**If leased equipment or assets are not properly maintained, their residual value may be less than expected**

If a lessee fails to maintain leased equipment or assets in accordance with the terms of its lease, the Group may have to make unanticipated expenditures to repair the equipment in order to protect its investment. In addition, some of the equipment the Group purchases may be used equipment. While the Group inspects used equipment prior to purchase, there can be no assurance that such inspection will reveal any or all defects and problems with the equipment that may occur after it is acquired by the Group.

The Group seeks to obtain representations from the suppliers and lessees of used equipment, including that:

- the equipment has been maintained in compliance with the terms of their agreements with the Group;
- neither the supplier, nor the lessee, is in violation of any material terms of such agreements; and
- the equipment is in good operating condition and repair, and that, in the case of a lessee, it has no defences to the non-payment of rent for equipment as a result of its condition. See *"Business – The Group'S Business – Terms of Finance Lease Agreements"*.

The Group has a right to make claims against the supplier of the equipment for any losses arising from a breach of representations made to the Group, and against the lessee for a default under the lease. However, the Group cannot offer any assurance that these rights would make the Group whole with respect to its entire investment in the equipment in question, or the Group's expected returns on equipment, including legal costs, costs of repair and lost revenue from the delay in being able to sell or re-lease the equipment due to undetected problems or issues, and, as such, this could result in a material adverse effect on the Group's business, financial condition, results of operations and prospects and the value of the Notes.

The increased focus by the Group on operating leases will increase these risks as with an operating lease, the Group retains all ownership interests in the asset as well as responsibility for the asset and its upkeep and any defect, impairment or failure to maintain properly the asset will directly impact the value of such asset to the Group. While the lessee shall in any case be held liable for the maintenance of the leased equipment to keep it in good operating condition as per the requirements set out in the operating lease agreements and the operating lease agreements do not grant the lessees any defences to liabilities in respect of the leased asset and its upkeep, the risks arising from that, as described above, and any required expenditure are more likely to be borne by the Group.

### **If a lessee defaults on its lease, the Group could incur losses**

If a lessee does not make lease payments to the Group when due, or violates the terms of its lease in another material way, the Group may terminate the lease and attempt to recover the leased asset. Upon recovery of the asset, the Group may not be able to arrange for a new lease or to sell the asset immediately, if at all. The Group would then be exposed to lost lease revenues and might not be able to recover the entire amount, or any, of its original investment in the equipment. The costs of recovering an asset upon a lessee's default, enforcing the lessee's obligations under the lease, and transporting, storing, repairing and finding a new lessee or purchaser for the asset may be high, may negatively affect the value of the Group's investment in the equipment, and could have a material adverse effect on the Group's business, financial condition, results of operations and prospects and the value of the Notes. See "*Risk Management – Credit Risk – Credit Risk Analysis*" and "*Business – The Group'S Business – Defaults*".

Moreover, it may sometimes be impossible to re-negotiate the lease on terms similar to those of the original defaulting transaction. As economic conditions may change over time, the Group is then exposed to risks associated with market lease rates. Therefore, the Group may sometimes attempt to re-negotiate finance leases on terms similar to those of operating leases (see "*Business – The Group'S Business – Rail Transportation*"). This may require the Group to build up specific expertise in monitoring, maintenance and value protection of such assets which may put an increased burden on the Group and adversely affect its operational efficiency. If a lessee files for bankruptcy, the Group may have difficulty enforcing the terms of the lease and may incur losses.

If a lessee files for bankruptcy, the remaining term of the lease could be shortened or the lease could be rejected by the bankruptcy court, which could result in, among other things, any unpaid pre-bankruptcy lease payments being cancelled as part of the bankruptcy proceedings. If a lease is rejected in a bankruptcy, the Group would bear the cost of retrieving and storing the asset, and then have to re-sell or re-lease the asset in order to mitigate its losses. In such circumstances, the Group may not be able to arrange for a new lease or to sell the asset immediately, if at all, and this risk is compounded by the fact that many leased assets (particularly in the energy and manufacturing sectors) are non-liquid assets that have been designed to meet a specific customer's requirements. The Group would then lose the expected lease revenues and might not be able to recover the entire amount, or any, of its original investment in the equipment. This is a particular issue in relation to finance leasing where the Group does not expect to retain the asset. Such situations could have a material adverse effect on the Group's business, financial condition, results of operations and prospects and the value of the Notes.

### **The Group has made significant advances to a number of major suppliers; any failure by a major supplier to deliver under its contract would have a negative financial impact on the Group**

As part of the lease arrangements entered into with lessees, the Group may agree to advance payment to an equipment supplier ahead of construction of an asset to be leased. Advances to suppliers (of leasing assets and fixed assets) were RUB 68,539 million as at 30 September 2019 (as compared to RUB 57,104 million as at 31 December 2018), driven by, *inter alia*, the implementation of several non-commercial projects funded by the Government of the Russian Federation through direct capital contribution to STLC's charter capital.

Companies to which the funds were advanced are in receipt of support from the Russian Federation and the Group therefore thinks it unlikely that such companies would fail to deliver under such contract or any future such contract in respect of further advances. Payments advanced were funded by the Group's capital received from the Government, so the Group does not incur interest expenses during the assets' construction period.

Besides the implementation of government-supported projects, an increase of advances to suppliers in the first nine months of 2019 and in 2018 was also driven by further growth in the Group's railway and aviation leasing business. To mitigate the risk of increasing prices for railcars, the company started to enter into purchase agreements whereby it fixes prices for long-term deliveries.

A failure by the suppliers to deliver under any such contract could lead to the recognition by the Group of a significant impairment allowance which could adversely affect its financial position.

**The Group may not be able to obtain insurance for certain risks and would have to bear the cost of losses from non-insurable risks**

Leased assets may be damaged or lost. Fire, weather, accidents, theft or other events can cause damage or loss. The Group usually arranges for insurance coverage, whether a finance lease or an operating lease, based on the full value of the funds invested in such asset prior to its delivery to the lessee (with the cost of such insurance being factored into the lease payments due from the lessee), with certain assets (particularly aircraft and ships) insured by the lessee at its own expense (as is typical for such sectors, with such insurance being a legal requirement to operate the asset). However, some losses, such as losses from acts of war, terrorism or earthquakes may either be uninsurable or not economically feasible to insure. Not all possible liability claims or contingencies affecting equipment can be anticipated or insured against, and, if insured, the insurance proceeds may not be sufficient to cover a loss. If such damage or loss occurs, the Group could suffer a total loss of any investment in the affected asset. Furthermore, insurance coverage may not be available in the Russian Federation at levels comparable to those customary in other countries for such assets. In particular, the concept of residual value is still relatively new in the Russian Federation and is yet to be properly understood by insurance companies, and so the Group has to insure based on the value of the funds invested in the asset, rather than on the basis of residual value or the credit profile of the lessee.

In leasing some types of assets the Group may be exposed to environmental liability. Although the Group uses its best efforts to minimise the possibility and exposure of such liability, no assurance can be given that its assets are fully protected against any such claims, and losses arising as a result could have a material adverse effect on the Group's business, financial condition, results of operations and prospects and the value of the Notes.

**The Group could suffer losses from failure to maintain equipment registration and from unexpected regulatory compliance costs**

Many types of energy, heavy industry and transportation assets are subject to registration requirements by Russian governmental agencies, in particular aircraft and shipping vessels. Failing to register the asset, or losing the registration, could result in substantial penalties, forced liquidation of the asset and/or inability to operate and lease the asset. Governmental agencies may also require changes or improvements to assets, and the Group may have to spend its own funds to comply if the lessee of the asset is not required to do so under the lease. These changes could force the asset to be removed from service for a period of time. The terms of leases may provide for rent reductions if the asset must remain out of service for an extended period of time or is removed from service. If the Group does not have the funds to make a required change, it might be required to sell the affected asset. In these circumstances, the Group could suffer a loss on its investment, lose future revenues and experience adverse tax consequences, all of which could have a material adverse effect on the Group's business, financial condition, results of operations and prospects and the value of the Notes.



## **RISKS RELATED TO SANCTIONS**

### **Non-compliance with OFAC, EU, UK and other sanctions programmes, an expansion of these programmes or the Group's dealings with parties subject to sanctions could adversely impact the Group's business, financial condition, results of operations or prospects**

In response to the perceived role of the Russian Federation in events in Eastern Ukraine and Crimea, the United States and the EU, as well as a number of other countries (including Canada, Australia and Norway), have imposed sanctions on certain Russian and Ukrainian persons and entities. For further information on the conflict in Eastern Ukraine and Crimea and the sanctions imposed by the United States and the EU, please refer to “*Sanctions*” below.

None of the proceeds of the Notes will be used to fund activities or persons that are subject to sanctions by the U.S. Department of the Treasury Office of Foreign Assets Control (OFAC) or by the EU or the UK and the Group has no reason to believe that it may be specifically targeted by OFAC, EU or UK sanctions. However, OFAC and EU sanctions that target Russian persons are relatively recent and the application of these sanctions remains subject to interpretation and implementation by various regulators and market participants who may deviate from the Group's interpretation and application of those sanctions to itself and its counterparts.

Should the Group become subject to OFAC, EU or UK related sanctions, there may be significant restrictions or bans imposed on dealings with the Group which may also restrict or prohibit dealings with the Group or the Notes, including their sale, purchase or transfer, which could negatively affect the Noteholders. Any non-compliance with OFAC, EU, UK and other sanctions programmes could expose the Group to significant fines and penalties and to enforcement measures, which in turn could adversely impact its business, financial condition, results of operations or prospects.

Additionally, the introduction of any large scale sanctions on the Group or further large scale sanctions on the Russian economy and its banking system may negatively affect the Group's business. For example, the Group's ability to use international settlement, clearing, payment and information exchange systems may be limited. The Group may be limited in its ability to or be unable to transact in US dollars or Euro with counterparties or raise funding in the international markets, particularly those involving investors from the United States and the EU. In such circumstances, while the Group would consider and, to the extent possible, take measures available to it to discharge its obligations under the Notes, the imposition of sanctions on the Russian financial services sector could negatively affect, among other things, the ability of Noteholders to receive payments under the Notes.

Furthermore, should either OFAC or the Council of the EU expand their respective sanctions programmes to include the Group's existing or future clients, suppliers or other counterparties, a large sector of the Russian economy or otherwise, or should the UK impose similar sanctions, such actions could result in financial difficulties for such persons. The Group's dealings with designated persons could become material or the suspension or potential curtailment of business operations between the Group and the designated persons could occur. The introduction of such large scale sanctions on Russian companies or sectors of the Russian economy, including the Russian financial services sector, may further negatively affect the Russian economy and investment climate and lead to further deterioration of the Russian financial markets. Any of the foregoing could result in a material adverse effect on the Group's business, financial condition, results of operations and prospects.

### **The Group's state-funded transport energy efficiency programme in Crimea may not be in compliance with US and EU sanctions**

In January 2015, the Russian Government provided RUB 4.94 billion to STLC aimed at implementing a transport energy efficiency programme of natural gas vehicles and electric passenger transport leasing in Crimea between 2015 and 2020 (see further in “*Business – The Group'S Business –*

*Infrastructure*”) (the **Crimean Programme**). The Group plans to further finance the project from the proceeds of RUB 4.9 billion expected to be generated by lease payments under the Crimean Programme that commenced in 2017.

The Group has no intention to raise non-budget financing in the form of bank loans in 2020 for the Crimean Programme. The Group recovers lease payments under the Crimean Programme by means of government guarantees and budgeted funds of territorial entities and/or state bodies of the Russian Federation which are intended to honour such lease payments (agreements under the Crimean Programme are approved by the Ministry of Transport of the Russian Federation). According to the terms and conditions of the Crimean Programme, the prescribed amount of equipment (i.e. passenger fleet) will be purchased only if 100 per cent of the lease payments are recovered by STLC. No additional sources of funding are stipulated in the Crimean Programme. No proceeds from the issuance of the Notes will be used for any purposes associated with the Crimean Programme.

The Crimean Programme represented approximately 1.0 per cent of the Group’s total assets and 1.3 per cent of the gross aggregate lease portfolio (including gross investment in leases on contracts that have been signed but have not commenced) as of 30 September 2019, compared to 1.2 per cent and 1.5 per cent as of 31 December 2018 and 1.3 per cent and 1.6 per cent as of 31 December 2017 respectively. The Group’s management does not expect the share of leases under the Crimean Programme in the Group’s gross aggregate lease portfolio (including gross investment in leases on contracts that have been signed but have not commenced) to exceed 2.0 per cent during the life of the Crimean Programme. Contracts are entered into on a preferential basis set significantly below market rates and slightly above the current CBR’s key rate and the revenues generated by the Crimean Programme are therefore not expected to materially affect the Group’s financial results.

The Group does not currently have, and is not planning to set up or acquire, any subsidiaries in Crimea and, save for the Crimean Programme, none of STLC or its subsidiaries is involved in any business activities in Crimea.

Certain operations in Crimea are subject to U.S. and EU sanctions, including investments in transport infrastructure in Crimea in the case of the EU. The Group believes that any such operations of the Group under the Crimean Programme are not material, and none of the proceeds of the Notes will be used to fund any such operations in Crimea. However, the Group’s operations in Crimea are not in full compliance with the current economic sanctions which the United States, the EU and other countries have imposed against Russian individuals and legal entities in connection with the events in Crimea, and no assurance can be given that such Crimea sanctions will not be expanded in the future. Any such non-compliance or expansion of the current sanctions regime with respect to Crimea may negatively impact the Group’s business, financial condition, results of operations and prospects and may expose Noteholders to sanctioned entities.

## **RISKS RELATING TO THE GROUP’S OPERATIONS IN THE RUSSIAN FEDERATION**

### **Instability in or decline of the Russian economy could materially and adversely affect the Group’s business, financial condition and results of operations or prospects**

A substantial part of the Group’s revenue is derived from operations in Russia. As a result, the Group’s financial condition and results of operations are substantially affected by the macroeconomic and microeconomic conditions of the Russian economy. Furthermore, the Group is an entity wholly owned by the Russian Government. Deterioration of the Russian economy could lead to lower federal budget revenues which could have a material adverse effect on the Russian Government’s ability to provide financial support to the Group and the Group’s state-owned customers.

Since the dissolution of the Soviet Union in the early 1990s, Russia’s society and economy have, at various times, experienced significant economic volatility. The Russian economy has also

experienced deteriorating economic performance in recent years, particularly since early 2014. This economic volatility and deteriorating economic performance has been attributable to a number of macro- and microeconomic factors, as follows. These factors may individually and collectively have a negative impact on the financial performance of the Group. Any further deterioration in the performance of the Russian economy as a result of such factors could impact the financial condition and results of operations of the Group and consequently the ability of the Group to make payment under the Notes.

#### *Fluctuation and prolonged decline in commodities prices*

The Russian economy is to a significant degree dependent on exports of key commodities, such as crude oil, natural gas, iron ore and other raw materials, which makes the Russian economy particularly vulnerable to fluctuations in the world markets' prices of commodities. There was a dramatic decrease in the price of oil from its peak in the summer of 2008, resulting in sharp decreases in Russian state revenues, which in turn had a significant negative impact on the Russian economy. Any significant disruptions of major exploration and development projects in the Russian oil and gas sector may also result in decreased productivity, reductions in output of such commodities and may ultimately lead to lower federal budget revenues. Fluctuations in the global economy and any prolonged decline in commodities prices may have an adverse effect on the Russian economy and, accordingly, on the Group's business, financial condition, results of operations and prospects.

#### *Underdeveloped leasing industry*

The Russian leasing industry is relatively young and undeveloped and there cannot be any assurance that the substantial growth experienced in recent years will be sustained or maintained. The development of the Russian leasing market remains tied to demand from core sectors of the economy. During the worldwide financial downturn, certain industries which were traditionally key demand sectors for the Russian leasing market, such as the construction industry, suffered significant downturns from which they have yet to recover. Although the Group has diversified its portfolio to reduce its exposure to any one industry, and despite the Group being insulated to a certain extent from the effects of downturns as a result of its position as wholly owned by the Russian Federation, a significant market downturn affecting most of these sectors, or other sectors in which the Group is active, could have a material adverse effect on the Group's business.

#### *Underdeveloped banking system and volatile domestic money market*

Russia's banking and other financial systems are not well developed or regulated, and Russian legislation relating to banks and bank accounts is subject to varying interpretations and inconsistent applications. The serious deficiencies in the Russian banking sector, combined with the deterioration in the credit portfolios of Russian banks, may result in the banking sector being more susceptible to worldwide credit market downturns and economic slowdown. The Russian domestic financial and banking markets have experienced and continue to experience substantial volatility and periodic shortages of liquidity. A prolonged or serious banking crisis or the bankruptcy of a number of Russian banks could have a material adverse effect on the Group's business and its ability to complete banking transactions in Russia which in turn, could have a material adverse effect on the Group's business, results of operations or financial condition.

#### *Domestic or foreign conflicts*

Ethnic, religious, historical and other divisions have, on occasion, given rise to tensions and, in certain cases, military conflict, both internally and with other countries. In the past military and paramilitary armed conflicts have occurred in the Chechen Republic, Georgia, South Ossetia and Abkhazia. Past significant civil unrest and political instability in Ukraine and Crimea and the on-going armed conflict in Eastern Ukraine has affected relations between the Russian Federation and Ukraine. The armed

conflict in Eastern Ukraine is on-going and could continue or escalate. For further information on the conflict in Eastern Ukraine and Crimea, please refer to “*Sanctions – Armed conflict in Eastern Ukraine and the international reaction to Russia’s actions in connection with Crimea*”. The involvement of the Russian Federation in any future domestic or foreign conflicts could materially and adversely affect the investment environment and overall consumer confidence in the Russian Federation, which in turn could adversely affect the Group’s business.

#### *Sanctions*

The imposition of economic sanctions by the United States, the EU and other countries (including Canada, Australia and Norway) against Russian individuals and legal entities in connection with Crimea’s accession to the Russian Federation and the armed conflict in Eastern Ukraine has caused the deterioration of the Russian economy. Other countries may impose similar measures on Russia in the future. In turn, Russia may also adopt embargos or other restrictive economic measures in the future (as contemplated by the Russian Law “On Special Economic Measures”) with respect to the countries within which the Group currently operates or plans to operate in the future. As a result of such sanctions, the Group’s business, financial condition and results of operations could be materially adversely affected. For further information on sanctions imposed by the United States and the EU, please refer to “*Sanctions*” and for the risks associated to the Group as a result of these sanctions, please refer to “*Risk Factors – Risks related to sanctions*”.

#### *Political and social instability*

The Russian political system, though more stable than in the 1990s, remains vulnerable to popular dissatisfaction, as well as to demands for autonomy from particular regional and ethnic groups. The course of political, economic and other reforms has in some respects been uneven, and the composition of the Russian Government has, at times, been unstable. Social instability in the Russian Federation, coupled with difficult economic conditions, have also led in the past, and could lead in the future, to labour and social unrest and protests. Any significant further increases in political or social instability could have a material adverse impact on the value of investments relating to the Russian Federation, and the Notes in particular, as well as on STLC’s business, results of operations, financial condition and prospects.

#### *Crime and corruption*

The political and economic changes in the Russian Federation since the early 1990s have resulted in reduced policing of society and increased lawlessness. Additionally, published reports indicate that a significant proportion of the Russian media regularly publishes biased articles in return for payment. The Group’s business, results of operations, financial condition and prospects could be materially adversely affected by illegal activities, corruption or by claims alleging involvement in illegal activities.

#### *Inflation*

Inflation declined to 5.4 per cent in 2016 and to 2.5 per cent in 2017, increased to 4.3 per cent in 2018 and then decreased to 3.05 per cent in 2019. High inflation in Russia could lead to market instability, financial crises, reductions in consumer purchasing power and erosion of consumer and investor confidence. Any one of these events could lead to decreased demand for the Group’s products and services.

#### *Unconvertible currency and volatile exchange rates*

The exchange rate of the Rouble against the US dollar was volatile in recent years and as at 20 February 2020 amounted to RUB 63.69 per USD 1.00. The Rouble is generally not convertible

outside of the Russian Federation. A market exists within the Russian Federation for the conversion of Roubles into other currencies, but it is limited in size and is subject to rules limiting such conversion. Although most of the previously existing currency control restrictions are no longer in effect, any future change to the currently existing currency control regime may have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

**The Russian legal system and Russian legislation are at a developmental stage and this may create an uncertain environment for investment and for business activity**

The Group may have difficulty enforcing its contractual and other legal rights in Russian courts due to risks related to Russian law and enforcement. Russia is still developing the legal framework required by a market economy. Among the possible risks of the current Russian legal system are:

- inconsistencies among (1) federal laws, (2) decrees, orders and regulations issued by the president, the Government, federal ministries and regulatory authorities, and (3) regional and local laws, rules and regulations;
- limited judicial and administrative guidance on interpreting Russian legislation;
- limited court personnel with the ability to interpret new principles of Russian legislation, particularly business and corporate law;
- gaps in the regulatory structure due to delay in legislation or absence of implementing legislation;
- high degree of discretion on the part of governmental authorities; and
- the inadequacy of bankruptcy procedures and certain violations in bankruptcy proceedings.

All of these risks could affect the Group's ability to enforce its rights under contracts, or to defend against claims by others.

Furthermore, Russian laws regulating ownership, bankruptcy and the corporate governance of Russian companies are relatively new and, by and large, have not yet been tested in the courts. Judicial decisions in the Russian Federation are difficult to predict and effective redress is uncertain. Furthermore, court judgments are not always enforced or followed by law enforcement agencies. Judicial precedents generally have no binding effect on subsequent decisions. The current status of the Russian legal system makes it uncertain whether the Group would be able to enforce its rights in disputes with any of its contractual counterparties. Furthermore, its ability to protect and enforce such rights is dependent on the Russian courts, which are underdeveloped, inefficient and, in places, corrupt. If any redress is sought with Russian legal authorities, any of these factors could adversely affect the ability of the Issuer to make payments of principal, interest and additional amounts (if any) in respect of the Notes.

**RISKS RELATED TO THE GROUP'S BUSINESS IN GENERAL**

**The continued expansion of the Group's lease portfolio depends to an increasing extent upon its ability to obtain adequate and affordable funding**

The availability of credit to emerging markets borrowers, such as the Group, is significantly influenced by investor confidence in such markets as a whole. Accordingly, any decrease in investor confidence within the emerging markets could have a negative effect on the price or availability of funding within such markets. Any deterioration in economic conditions in the Russian Federation or internationally, or decrease in investor confidence, could result in reduced liquidity and increased

costs of funding, which, in turn, could affect the continued expansion of the Group's lease portfolio, which would be likely to have a material adverse effect on the Group's business.

The Group operates with a high degree of leverage and its continued growth depends, in part, on its ability to obtain adequate funding from a variety of sources. The Group is increasingly reliant on alternative sources of funding other than capital injections obtained from the Russian Government. The capital injections are provided through state programmes which are implemented on a co-funding basis which supports STLC's further raising of funds from third party sources.<sup>1</sup> However, capital injections from the Russian Government remain a significant funding source for the Group. For further information on the risks associated with such state funding, please refer to "*Risk Factors – The Group and some of its customers would be adversely affected if it and they did not continue to receive capital support from the Russian Government*".

The Group relies on credit facilities to fund its operations and has established strong relationships with major local and international financial institutions for this purpose. The Group also uses finance leases as a funding source for aircraft purchases. Such funding structures will be needed in the future if the Group is to continue to expand its leasing portfolio. For further information on credit facilities and finance lease agreements, see "*Selected Financial Review – Funding – Credit facilities*" and "*Selected Financial Review – Funding – Finance lease agreements*".

In addition, access to the capital markets is set to become an important source of funding for the Group as an alternative to bank loans. For further information on capital markets funding, see "*Selected Financial Review – Funding – Bond issues*".

The Group cannot, however, provide any assurance that it will be able to continue to source debt financing from third party financial institutions or access the domestic or international capital markets to issue new debt or refinance its current borrowings, on favourable terms, or at all. In addition, if the Group's debt levels increase, the Group may find it more challenging to meet payments under such debts to comply with the covenants imposed by such debt and may find it harder to raise required funds. Furthermore, the Group relies to a significant extent on debt financing from Russian banks. Accordingly, if a prolonged or serious banking crisis was to occur in Russia, its ability to access this source of financing may be limited, which in turn, could have a material adverse effect on the Group's business, results of operations or financial condition.

If the Group is not able to source the funding it needs, then to the extent that it is not otherwise able to source funding from the Russian Government, it may be unable to increase the size of its lease portfolio and grow its business, which could have a material adverse effect on the Group's business, financial condition, results of operations, prospects and the value of the Notes.

The Group uses the funding it receives to purchase assets for the purposes of leasing. If the Group's cost of funding increases and the Group cannot raise its lease yields to match this then the credit spread, being the difference between the Group's cost of funding and the yield on its leases, may narrow. This is likely to have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

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<sup>1</sup> The "co-funding principle" in governmental projects means that whenever STLC implements such projects it should have received sufficient support from the shareholder (by way of direct capital injections) which both supports STLC's liquidity and capitalisation and allows STLC to seek additional non-budget funding from other sources (bank loans, etc.). Such funds are invested (and further re-invested) along with borrowed money thus attracting funding in projects which otherwise might be impossible to fund solely on market terms.

## **The further impairment of leases and loans and receivables or other impairment charges could negatively impact the Group's profitability**

The Group reviews its loans and receivables (including receivables under finance leases) to assess impairment on a regular basis.

Charge of provision for expected credit losses on interest bearing assets amounted to RUB 1,228 million for the nine months ended 30 September 2019, as compared to RUB 594 million for the nine months ended 30 September 2018. Charge of provision for credit losses on interest bearing assets amounted to RUB 1,115 million for the year ended 31 December 2018, as compared to RUB 1,852 million for the year ended 31 December 2017. Charge of provision for impairment losses on net investment in leases amounted to RUB 954 million for the nine months ended 30 September 2019. Charge of provision for impairment losses on net investment in leases amounted to RUB 680 million for the year ended 31 December 2018. Starting from 1 January 2018, in accordance with the requirements of IFRS 9, when calculating the amount of reserves, the 'loss incurred' model used previously was replaced by the 'expected loss' model. In accordance with IFRS 9, impairments are recognised for financial assets, namely advances to suppliers and loans granted. The amount of recovered reserves in respect of advances amounted to RUB 231 million and the amount of accrued reserves in respect of loans amounted to RUB 505 million for the nine-month period ended 30 September 2019. The amount of accrued reserves in respect of these assets amounted to RUB 397 million in respect of advances and RUB 38 million in respect of loans for the year ended 31 December 2018.

Charge of provision for expected credit losses on non-interest bearing assets amounted to RUB 2,849 million for the nine months ended 30 September 2019, as compared to RUB 1,671 million for the nine months ended 30 September 2018. Impairment in the amount of RUB 2,061 million was recognised for receivables under lease agreements relating to the Sukhoi Superjet 100 Programme for the nine-month period ended 30 September 2019. Therefore, this charge was not connected to the lease portfolio quality in general or to any deterioration in macro-economic conditions. Charge of provision for impairment losses on non interest-earning assets amounted to RUB 2,869 million for the year ended 31 December 2018, as compared to RUB 2,966 million for the year ended 31 December 2017. Impairment in the amount of RUB 2,468 million was recognised for receivables under lease agreements relating to the Sukhoi Superjet 100 Programme in 2018. Therefore, this charge was not connected to the lease portfolio quality in general or to any deterioration in macro-economic conditions, either.

Another significant contributor to the net results for the nine-month period ended 30 September 2019 was a provision charge recorded under the other operating expenses item. This movement was primarily caused by re-estimates of allowance levels upon the cancellation of contracts in finance leasing transactions.

Furthermore, a significant contributor to the net results for the year ended 31 December 2018 was a provision charge recorded under the other operating expenses and charge of provision item. This was the result of the recognition of the impairment of assets leased out under operating leases. For aircraft with a net book value of RUB 109,267 million, an impairment analysis was prepared by using a two-stage testing method. This methodology and the assumptions used in the analysis are consistent with IAS 36. As a result of the test, the Group accrued an impairment allowance in the amount of RUB 400 million for the year ended 31 December 2018.

A significant contributor to the net results for the year ended 31 December 2017 was a provision charge recorded under the other operating expenses and charge of provision item. This was the result of the recognition of a provision in an amount of RUB 1,423 million for an obligation relating to an embedded RUB/USD exchange rate clause in a loan agreement entered into by the Group. This provision was recognised in accordance with the requirements of IAS 37 as the Group was able to

estimate reliably the relevant obligation during that period, while a higher level of uncertainty in respect of future exchange rates and the final maturity of the instrument (which had a voluntary prepayment option) did not allow the Group to estimate it reliably in prior periods. As such, this loss was not caused by any general operational decline or deterioration in macro-economic conditions or in asset or portfolio quality and was solely attributable to characteristics of a single financial instrument.

Any further increase in impairment and provision charges could materially negatively impact the Group's profitability. For further information on impairment and provision charges, see "*Selected Financial Review – Impairment assessment*".

## **RISKS RELATING TO IRELAND**

**Each of the Issuer and GTLKE is subject to risks relating to the location of its centre of main interest (COMI), the appointment of examiners and the claims of preferred creditors under Irish law**

### *COMI*

Each of the Issuer and GTLKE has its registered office in Ireland. Under Regulation (EU) No. 2015/848 of the European Parliament and of the Council of 20 May 2015 on insolvency proceedings (recast) (the **Recast EU Insolvency Regulation**), each of the Issuer's and GTLKE's COMI is presumed to be the place of its registered office (i.e. Ireland) in the absence of proof to the contrary and provided that each of the Issuer and GTLKE did not move its registered office within the three months prior to a request to open insolvency proceedings.

As each of the Issuer's and GTLKE's COMI is presumed to be Ireland, any main insolvency proceedings in respect of the Issuer and GTLKE would fall within the jurisdiction of the courts of Ireland. As to what might constitute "proof to the contrary" regarding the location of a company's COMI, the key decision is that in *Re Eurofood IFSC Ltd* ([2004] 4 IR 370 (Irish High Court); [2006] IESC 41 (Irish Supreme Court); [2006] Ch 508; ECJ Case C-341/04 (European Court of Justice)), given in respect of the equivalent provision in the previous EU Insolvency Regulation (Regulation (EC) No. 1346/2000). In that case, on a reference from the Irish Supreme Court, the European Court of Justice concluded that "factors which are both objective and ascertainable by third parties" would be needed to demonstrate that a company's actual situation is different from that which the location of its registered office is deemed to reflect.

As each of the Issuer and GTLKE has its registered office in Ireland, at least 50 per cent of each entities' directors are Irish tax resident and each entity is registered for tax in Ireland, each of the Issuer and GTLKE does not believe that factors exist that would rebut the presumption that each entities' COMI is located in Ireland, although this would ultimately be a matter for the relevant court to decide based on the circumstances existing at the time when it is asked to make that decision. If either the Issuer's or GTLKE's COMI was found to be in another EU jurisdiction and not in Ireland, main insolvency proceedings would be opened in that jurisdiction instead.

### *Examinership*

Examinership is a court moratorium/protection procedure which is available under Irish company law to facilitate the survival of Irish companies in financial difficulties. Where a company, which has its COMI in Ireland (an **Irish Company**) is, or is likely to be, unable to pay its debts, an examiner may be appointed on a petition to the relevant Irish court under Section 509 of the Companies Act 2014. The Irish Company, its shareholders and directors and a contingent, prospective or actual creditor of the Irish Company are each entitled to petition the court for the appointment of an examiner. The examiner, once appointed, has wide powers.



During the period of protection, the examiner will compile proposals for a compromise or scheme of arrangement to assist in the survival of the company or the whole or any part of its undertaking as a going concern. A scheme of arrangement may be approved by the relevant Irish court when (i) a minimum of one class of creditors, whose interests are impaired under the proposals, has voted in favour of the proposals, (ii) the relevant Irish court is satisfied that such proposals are fair and equitable in relation to any class of members or creditors who have not accepted the proposals and whose interests would be impaired by implementation of the scheme of arrangement and (iii) the proposals are not unfairly prejudicial to any interested party.

If an examiner were appointed to the Issuer while any amounts due by the Issuer under the Notes were unpaid or to GTLKE while any amounts due by GTLKE under the Guarantee were unpaid, the primary risks to the holders of Notes would be as follows:

- the Trustee, acting on behalf of Noteholders, would not be able to enforce rights against either the Issuer or GTLKE (as applicable) during the period of examinership; and
- a scheme of arrangement may be approved involving the writing down of the debt due by the Issuer or GTLKE (as applicable) to the Noteholders irrespective of the Noteholders' views; and
- the examiner may set aside the negative pledge in the Notes prohibiting the creation of security or the incurrence of borrowings by the Issuer or GTLKE (as applicable) to enable the examiner to borrow to fund the Issuer or GTLKE (as applicable) during the protection period; and
- while a company is under the protection of the relevant Irish court, no action can be taken to enforce guarantees against persons who have guaranteed the debts of the company. Whether this prohibition under Irish law would be effective in the pursuit of a foreign guarantee is a matter of the governing law of the guarantee and/or the guarantor's residence.

#### *Preferred Creditors*

If the Issuer or GTLKE becomes subject to an insolvency proceeding and the Issuer or GTLKE has obligations to creditors that are treated under Irish law as creditors that are senior relative to the Noteholders, the Noteholders may suffer losses as a result of their subordinated status during such insolvency proceedings. In particular, under Irish law, the claims of unsecured creditors of the Issuer or GTLKE rank behind secured creditors (to the extent of their security) and certain other creditors (including fees, costs and expenses of any examiner appointed, certain capital gains tax liabilities and claims of the Irish Revenue Commissioners for certain unpaid taxes).

## **RISKS RELATED TO TAXATION**

### **Russian tax risks**

#### **The Russian taxation system is relatively underdeveloped**

Russian tax laws, regulations and court practice are subject to frequent change, varying interpretations and inconsistent and selective enforcement. In accordance with the Constitution of the Russian Federation, laws that introduce new taxes or worsen a taxpayer's position cannot be applied retrospectively. Nonetheless, there have been several instances when such laws have been introduced and applied retrospectively. As a result of this, it is possible that despite the best efforts of the Group to comply with Russian tax laws and regulations, certain transactions and activities of the Group that have not been challenged in the past may be challenged in the future, resulting in a greater than

expected tax burden, exposure to significant fines and penalties and potentially severe enforcement measures for the Group.

Russian tax legislation is consistently becoming more sophisticated. It is possible that new revenue-raising measures could be introduced. There is a possibility that the Russian Federation could impose arbitrary or onerous taxes and penalties in the future. Recent developments show that the Russian tax authorities are scrutinising various tax planning and mitigation techniques used by taxpayers, including international tax planning. For further information on recent developments of the Russian taxation system, see “*Taxation – The Russian Federation*”. Although it is unclear how any new measures would operate, and is currently unclear how the Russian tax authorities will interpret and apply the new tax provisions, the introduction of such measures and provisions may affect the Group’s overall tax efficiency and may result in significant additional taxes becoming payable. No assurance can be given that no additional tax exposures will arise for the Group.

All the aforesaid evolving tax conditions create tax risks in the Russian Federation that are greater than the tax risks typically found in countries with more developed taxation, legislative and judicial systems. These tax risks impose additional burdens and costs on the Group’s operations, including management’s resources. Furthermore, these risks and uncertainties complicate the Group’s tax planning and related business decisions, potentially exposing the Group to significant fines, penalties and enforcement measures, and could materially adversely affect the Group’s business, results of operations, financial condition, its ability to service its payment obligations under the Guarantees and the Issuer’s ability to make payments under, or the trading price, of the Notes.

#### **Payments under the Guarantee made by STLC may be subject to Russian withholding tax or Russian personal income tax, as applicable**

Payments following enforcement of the Guarantee to be made by STLC to the non-resident Noteholders relating to interest on the Notes are likely to be characterised as Russian-source income. Accordingly, there is a risk that such payments may be subject to withholding tax at a rate of 20 per cent in the event that a payment under the Guarantee is made to a non-resident Noteholder that is a legal entity or organisation which in each case is not organised under Russian law and which holds the Notes otherwise than through a permanent establishment in the Russian Federation. In the event a payment under the Guarantee is made to a non-resident individual, there is a risk that such payment may be subject to personal income tax at a rate of 30 per cent. If tax is not withheld at source by STLC which is a Russian legal entity, non-resident Noteholders that are individuals may be obliged to pay Russian personal income tax on their own on the basis of a personal income tax return. Such tax, if it arises, would not be in any way indemnified by the Issuer and/or STLC. We cannot offer any assurance that such withholding tax would not be imposed on the full amount of the payment under the Guarantee, including with respect to the principal amount of the Notes. The imposition or possibility of imposition of this withholding tax could adversely affect the value of the Notes. See “*Taxation – The Russian Federation*”.

Under the gross-up provisions for the Notes, if payments made under the Guarantee are subject to any withholding taxes for any reason (as a result of which STLC would be obliged to reduce the payments to be made under the Guarantee by the amount of such taxes to be withheld), STLC is required to increase the payments as necessary so that the net amounts received in respect of such payments after such withholding or deduction will equal the respective amounts that would have been received in respect of such payments in the absence of such withholding or deduction. It is unclear whether a tax gross-up clause such as that contained in this Prospectus is enforceable in the Russian Federation. There is a risk that the tax gross-up for withholding tax will not take place and that the full amount of the payments made by STLC, which is a Russian legal entity, will be reduced by Russian withholding income tax at a rate of 20 per cent (or 30 per cent in respect of individual Noteholders). See “*Taxation – The Russian Federation*”.

## **Tax might be withheld on disposals of the Notes in the Russian Federation, thereby reducing their value**

If a non-resident Noteholder that is a legal entity or organisation, which in each case is not organised under Russian law and which holds and disposes of the Notes otherwise than through a permanent establishment in Russia, sells the Notes and receives proceeds from a source within the Russian Federation, there is a risk that any part of the payment that represents accrued interest may be subject to a 20 per cent Russian withholding tax (even if a disposal is performed at a loss). The foreign Noteholder may be entitled to a reduction of such Russian withholding tax under an applicable double tax treaty.

Where proceeds from a disposal of the Notes are received from a source within the Russian Federation by a non-resident Noteholder that is an individual, there is a risk that Russian withholding tax would be charged (or such Noteholder would be required to pay Russian personal income tax on a self-assessment basis) at a rate of 30 per cent on gross proceeds from such disposal of the Notes less any available documented costs (including the acquisition cost of the Notes).

Such tax may be reduced or eliminated under an applicable double tax treaty, subject to compliance with the treaty clearance formalities. Obtaining a refund of taxes withheld can be extremely difficult, if not impossible. The imposition or possibility of imposition of the withholding tax could adversely affect the value of the Notes. See “*Taxation – The Russian Federation*”.

## **Payments under the Notes may be subject to Russian withholding tax**

Payments made by the Issuer under the Notes may be subject to Russian withholding tax if the Issuer is treated as a Russian tax resident or if the Issuer’s activities lead to creation of a permanent establishment for the Issuer in the Russian Federation. In these cases, payments of interest under the Notes made by the Issuer to the Non-Resident Noteholders could be recognised by Russian tax authorities as subject to Russian withholding tax at a rate of 20 per cent (or 30 per cent in respect of Individual Non-Resident Noteholders).

However, the Russian Tax Code provides an exemption from the obligation to withhold tax from interest paid by a Russian organisation to Legal Entity Non-Resident Noteholders under the “quoted bonds” issued in accordance with the legislation of a foreign jurisdiction (this exemption is also applicable to foreign organisations, which are either recognised as Russian tax residents, or recognised as organisations, the activities of which lead to the creation of a permanent establishment in the Russian Federation). Based on the professional advice received, the Issuer believes that the Notes should be recognised as “quoted bonds” for the purposes of the Russian Tax Code. For details, see “*Taxation – The Russian Federation*”.

Based on professional advice received, the Issuer believes that it should be released from the obligation to withhold Russian withholding tax from interest payments made to Legal Entity Non-Resident Noteholders under the Notes provided that the Notes continue to be recognised as “quoted bonds” for the purposes of the Russian Tax Code as outlined above.

If the Issuer’s activities lead to the creation of a permanent establishment for the Issuer in the Russian Federation, the payments under the Notes (including interest and principal amounts under the Notes) made by the Issuer to Individual Non-Resident Noteholders less any available cost deduction could be subject to Russian taxation at a rate of 30 per cent subject to any available double tax treaty relief (for details see “*Taxation – Double Tax Treaty Relief*”).

Also, if the Issuer is treated as a Russian tax resident, or if the Issuer’s activities lead to the creation of a permanent establishment in the Russian Federation, the Issuer will be fully subject to all applicable Russian taxes in accordance with the Russian tax law and will be exposed to all of the risks and

implications associated with the Russian tax system. Such Russian tax consequences could have a material adverse effect on the Issuer's business, financial condition and results of operations and the Issuer's ability to make payments under, or the trading price, of the Notes.

### **Irish tax risks**

#### **Irish Corporate Taxation of the Issuer**

As the Issuer will be managed and controlled in Ireland, it will be subject to Irish corporate taxation.

The Issuer intends to continue to conduct its business so that it should be considered to be carrying on a trade for Irish tax purposes and that, consequently, its income will be taxable at the rate of corporation tax generally applicable to trading profits (currently 12.5 per cent).

However, this conclusion is based on the assumption that such trading income will be taxed at the 12.5 per cent rate, which will be dependent on the Irish Revenue Commissioners concluding that the Issuer is engaged in an active business in Ireland. If the Issuer is not carrying on an active business in Ireland it will be subject to tax at a rate of 25 per cent. which would increase its liability to tax.

#### **Payments on the Notes may be subject to U.S. Withholding under FATCA**

FATCA generally imposes a reporting and withholding regime with respect to certain U.S. source payments (including dividends and interest) and "foreign passthru payments" (while withholding on foreign passthru payments will only apply two years after the final regulations defining the term "foreign passthru payment" is published in the Federal Register). The Issuer and financial institutions through which payments on the Notes are made may be required to withhold U.S. tax at a rate of 30 per cent on all, or a portion of, payments made by the Issuer on the Notes. This withholding tax may be triggered to the extent interest payments on the Notes by the Issuer were treated as income from U.S. sources and a Holder (a) does not provide information sufficient to determine whether the Holder is subject to withholding under FATCA, (b) does not consent, where necessary, to have its information disclosed to the IRS, or (c) is not exempt from FATCA withholding.

If an amount in respect of FATCA were to be deducted or withheld from interest, principal or other payments on or with respect to the Notes, the Issuer would have no obligation to pay additional amounts or otherwise indemnify a Noteholder for any such withholding or deduction by the Issuer, a paying agent or any other party as a result of the deduction or withholding of such amount. As a result, if FATCA withholding is imposed on these payments, Noteholders may receive less interest or principal than expected. An investor that is a foreign financial institution (**FFI**) (as defined in FATCA) but that is withheld upon because it has not entered into an agreement with the IRS generally or otherwise established an exemption from such withholding will be able to obtain a refund only to the extent an applicable income tax treaty with the United States entitles the investor to a reduced rate of tax on the payment that was subject to withholding under FATCA, provided the required information is furnished in a timely manner to the IRS.

Under the Irish IGA, the Issuer will not be required to enter into an agreement with the IRS if they are FFIs, but would instead be required to register with the IRS and comply with any Irish legislation implemented to give effect to such intergovernmental agreement.

Investors should consult their own advisers about the application of FATCA, and the effect of the Irish IGA.

## **OECD Action Plan on Base Erosion and Profit Shifting**

Fiscal and taxation policy and practice is constantly evolving and recently the pace of change has increased due to a number of developments. In particular, a number of changes of law and practice are occurring as a result of the Organisation for Economic Co-operation and Development (OECD) Base Erosion and Profit Shifting project (BEPS). Investors should note that certain action points which form part of the OECD BEPS project (such as Action 4, which can deny deductions for financing costs, see the risk factor entitled "*EU Anti-Tax Avoidance Directive*" below or Action 6 on the prevention of treaty abuse) may be implemented in a manner which affects the tax position of the Issuer.

### **Multilateral Instrument**

Certain of the proposed BEPS changes to existing double tax treaties may be implemented by means of a Multilateral Instrument (MLI). Since 7 June 2017, representatives from over 70 jurisdictions have signed up to the MLI. The MLI seeks to implement agreed tax treaty-related measures combating tax avoidance into bilateral existing tax treaties without the need to renegotiate a new treaty. The MLI entered into force for Ireland on 1 May 2019, with the effective date for withholding tax deferred until 1 January 2020.

The MLI will impact a number of tax treaties worldwide. Amongst the changes the MLI introduces are a clamp down on treaty-shopping arrangements, as well as the introduction of a principal purpose test (PPT), which, in simplistic terms, may disallow treaty benefits where the main purpose or one of the main purposes of structuring the transaction is to obtain the benefits of a treaty. Given the subjectivity of the PPT, there is a risk that each counterparty jurisdiction interprets it differently, which creates uncertainty in its application to leasing and other arrangements. While the impact of the MLI is not yet fully known, the MLI may make it more challenging for intermediary aircraft lessors to claim treaty benefits, which could impact the GTLKE Group. Depending on how the MLI is implemented and applied, it could impact structures within the GTLKE Group and negatively impact cash flows.

### **EU Anti-Tax Avoidance Directive and EU Anti-Tax Avoidance Directive 2**

As part of its anti-tax avoidance package, and to provide a framework for a harmonised implementation of a number of the BEPS conclusions across the EU, the EU Council adopted Council Directive (EU) 2016/1164 (the **Anti-Tax Avoidance Directive**) on 12 July 2016.

The EU Council adopted Council Directive (EU) 2017/952 (the **Anti-Tax Avoidance Directive 2**) on 29 May 2017, amending the Anti-Tax Avoidance Directive, to provide for minimum standards for counteracting hybrid mismatches involving EU member states and third countries.

EU member states had until 31 December 2018 to implement the Anti-Tax Avoidance Directive (subject to derogations for EU member states which have equivalent measures in their domestic law) and had until 31 December 2019 to implement the Anti-Tax Avoidance Directive 2 (except for measures relating to reverse hybrid mismatches, which must be implemented by 31 December 2021).

The Directives contain various measures that could, depending on their implementation in Ireland, potentially result in certain payments made by the Issuer ceasing to be fully deductible. This could increase the Issuer's liability to tax and reduce the amounts available for payments on the Notes.

There are two measures of particular relevance.

Firstly, the Anti-Tax Avoidance Directive provides for an "interest limitation rule" which restricts the deductible interest of an entity to 30 per cent of its earnings before interest, tax, depreciation and

amortisation. Ireland had previously sought to defer the introduction of rules restricting the tax deductibility of interest payments until 2024. However, in light of communications with the European Commission in the latter part of 2018 and during 2019, it seems increasingly likely that Ireland may seek to introduce these rules from 1 January 2021. Depending on the choices adopted by the Irish government, a form of group relief may be available which could (i) apply a higher threshold if the third party group interest expense ratio to group EBITDA is higher than 30 per cent. or (ii) provide relief from the restriction to the extent that the individual entity's equity to assets ratio is higher than the group's equivalent ratio. This measure could impact the ability of the Irish tax resident entities within the GTLKE Group, including the Issuer, to claim a tax deduction for interest payments which could increase the tax liability of the Issuer. The exact scope of the measure and its impact on the Issuer's tax position will depend on how it is implemented in Ireland.

Secondly, the Anti-Tax Avoidance Directive (as amended by the Anti-Tax Avoidance Directive 2) provides for hybrid mismatch rules. These rules apply in Ireland with effect from 1 January 2020 and are designed to neutralise arrangements where amounts are deductible from the income of one entity but are not taxable for another, or the same amounts are deductible for two entities. These rules could potentially apply to the Issuer where: (i) the interest that it pays under the Notes, and claims deductions from its taxable income for, is not brought into account as taxable income by the relevant Noteholder, either because of the characterisation of the Notes, or the payments made under them, or because of the nature of the Noteholder itself; and (ii) the mismatch arises between associated enterprises, between the Issuer and an associated enterprise or under a structured arrangement. It is not clear if the Issuer would have any associated enterprise, however if the Issuer has, or had at any time, an associated enterprise, then unless there is a hybrid mismatch the measures should not impact payments on the Notes.

For the purposes of the hybrid rules, a structured arrangement is one involving a mismatch outcome where the mismatch outcome is priced into the terms of the arrangement or the arrangement was designed to give rise to a mismatch outcome. Absent any guidance from the Irish Revenue Commissioners on how they will approach structured arrangements, it is not yet clear if this would apply to the transaction to bring it within scope of the hybrid rules.

## **RISKS RELATING TO THE NOTES**

### **The lack of a public market for the Notes could reduce the value of an investment in the Notes**

If an active trading market for the Notes does not develop or is not maintained, the market price and liquidity of the Notes may be adversely affected. In addition, stock markets in recent years and, in particular, in recent months, have experienced significant price fluctuations. These fluctuations were often unrelated to the operating performance of the companies whose securities were traded on such stock markets. Market fluctuations as well as adverse economic conditions have negatively affected the market price of many securities and may affect the market price of the Notes.

### **Payments are effectively subordinated to secured indebtedness of the Group**

A portion of the Group's indebtedness is secured by assets or rights to lease agreements of the Group. Accordingly, a portion of the assets of the Group is encumbered by liens securing such indebtedness. As at 30 September 2019, approximately 48 per cent of the Group's total debt funding (the sum of loans received, lease liabilities and bonds issued) was secured by assets as opposed to approximately 52 per cent of unsecured debt funding. The secured creditors of the Group will have priority over the Noteholders with respect to claims against such assets in the event of a default or event of bankruptcy, liquidation or insolvency.

### **The market price of the Notes may be volatile**

The market price of the Notes could be subject to significant fluctuations in response to actual or anticipated variations in the Group's and its competitors' operating results, adverse business developments, changes to the regulatory environment in which the Group operates, changes in financial estimates by securities analysts, the actual or anticipated sale of a large number of Notes or other securities and other factors. In addition, securities markets, in recent periods, have experienced significant price fluctuations. These fluctuations were often unrelated to the operating performance of the companies whose securities are traded on such stock markets. Market fluctuations as well as adverse economic conditions have negatively affected the market price of many securities and may affect the market price of the Notes.

### **The Notes may only be transferred in accordance with the procedures of the depositaries in which the Notes are deposited**

Except in limited circumstances, the Notes will be issued only in global form with interests therein held through the facilities of Euroclear and Clearstream, Luxembourg. Ownership of beneficial interests in the Notes will be shown on, and the transfer of that ownership will be effected only through, records maintained by Euroclear and Clearstream, Luxembourg or their nominees and the records of their participants. The laws of some jurisdictions may require that certain purchasers of securities take physical delivery of such securities in definitive form. These laws may impair the ability to transfer beneficial interests in the Notes. Because Euroclear and Clearstream, Luxembourg can only act on behalf of their participants, which in turn act on behalf of owners of beneficial interests held through such participants and certain banks, the ability of a person having a beneficial interest in a Note to pledge or transfer such interest to persons or entities that do not participate in the Euroclear or Clearstream, Luxembourg systems may be impaired.

### **The Notes are subject to risks relating to exchange rate and exchange controls**

The Issuer will pay principal and interest on the Notes in US dollars. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the **Investor's Currency**) other than the US dollar. These include the risk that exchange rates may significantly change (including changes due to devaluation of the US dollar or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to the US dollar would decrease (i) the Investor Currency's equivalent yield on the Notes; (ii) the Investor's Currency equivalent value of the principal payable on the Notes; and (iii) the Investor's Currency equivalent market value of the Notes.

### **Credit ratings assigned to the Group or the Notes may not reflect all the risks associated with an investment in those Notes**

One or more independent credit rating agencies may assign credit ratings to STLC or other companies of the Group. The Notes are expected to be rated Ba2 by Moody's and BB+ by Fitch. The ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above, and other factors that may affect the value of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be revised, suspended or withdrawn by the rating agency at any time.

In general, European (including United Kingdom) regulated investors are restricted under the CRA Regulation from using credit ratings for regulatory purposes, unless such ratings are issued by a credit rating agency established in the EU and registered under the CRA Regulation (and such registration has not been withdrawn or suspended), subject to transitional provisions that apply in certain circumstances whilst the registration application is pending. Such general restriction will also apply in

the case of credit ratings issued by non-EU and non-UK credit rating agencies, unless the relevant credit ratings are endorsed by an EU-registered or UK-registered credit rating agency or the relevant non-EU and non-UK rating agency is certified in accordance with the CRA Regulation (and such endorsement action or certification, as the case may be, has not been withdrawn or suspended). If the status of the rating agency rating the Notes changes, European (including United Kingdom) regulated investors may no longer be able to use the rating for regulatory purposes and the Notes may have a different regulatory treatment. This may result in European (including United Kingdom) regulated investors selling the Notes which may impact the value of the Notes and any secondary market. The list of registered and certified rating agencies published by the European Securities and Markets Authority (**ESMA**) on its website in accordance with the CRA Regulation is not conclusive evidence of the status of the relevant rating agency included in such list, as there may be delays between certain supervisory measures being taken against a relevant rating agency and the publication of the updated ESMA list. Certain information with respect to the credit rating agencies and ratings is set out on the cover of this Prospectus.



## DOCUMENTS INCORPORATED BY REFERENCE

The following documents which have previously been published, or are published simultaneously with this Prospectus, shall be incorporated in, and form part of, this Prospectus:

- (a) the convenience English translation of the unaudited interim consolidated condensed financial statements of the Group as of and for the nine-month period ended 30 September 2019, published at:  
[https://www.gtlk.ru/GTLK\\_9m2019\\_ENG.PDF](https://www.gtlk.ru/GTLK_9m2019_ENG.PDF)
- (b) the convenience English translation of the auditors' report and audited consolidated financial statements of the Group as of and for the year ended 31 December 2018 (which include as comparative financial information the audited consolidated financial information of the Group as of and for the year ended 31 December 2017), published at:  
[https://www.gtlk.ru/GTLK\\_2018\\_ENG\\_final.pdf](https://www.gtlk.ru/GTLK_2018_ENG_final.pdf)
- (c) the convenience English translation of the auditors' report and audited consolidated financial statements of the Group as of and for the year ended 31 December 2017 (which include as comparative financial information the audited consolidated financial information of the Group as of and for the year ended 31 December 2016), published at:  
[https://www.gtlk.ru/upload/dokumenty/otchetnost/GTLK\\_2017\\_ENG.pdf](https://www.gtlk.ru/upload/dokumenty/otchetnost/GTLK_2017_ENG.pdf)
- (d) the auditors' report and audited consolidated financial statements of the GTLKE Group as of and for the year ended 31 December 2018 (which include as comparative financial information the audited consolidated financial information of the GTLKE Group as of and for the year ended 31 December 2017), published at:  
<https://www.gtlkeurope.com/upload/gallery/04.%20GTLK%20Europe%20Ltd%20Consolidated%20FS%202018.pdf>
- (e) the auditors' report and audited consolidated financial statements of the GTLKE Group as of and for the year ended 31 December 2017 (which include as comparative financial information the audited consolidated financial information of the GTLKE Group as of and for the year ended 31 December 2016), published at:  
<https://www.gtlkeurope.com/upload/gallery/03.%20GTLK%20Europe%20Ltd%20Consolidated%20FS%202017.pdf>
- (f) the auditors' report and audited consolidated financial statements of the Issuer for its initial accounting period, which commenced on 17 January 2018 (being its date of incorporation) and ended on 31 December 2018, published at:  
[https://www.gtlkeurope.com/upload/gallery/05.%20GTLK%20Europe%20Capital%20DAC\\_FS%202018.pdf](https://www.gtlkeurope.com/upload/gallery/05.%20GTLK%20Europe%20Capital%20DAC_FS%202018.pdf)

Any documents themselves incorporated by reference in the documents incorporated by reference in this Prospectus shall not form part of this Prospectus.

## USE AND ESTIMATED NET AMOUNT OF PROCEEDS

The estimated net proceeds to the Issuer from the issue of the Notes are expected to be approximately USD 597,000,000 which the Issuer intends to lend within the Group. The Group intends to use such proceeds for the general corporate purposes of the Group, including its European and Asian business, as well as the refinancing of the Group's existing indebtedness.

The Issuer and the Guarantors will not directly or indirectly use the proceeds of the offering of the Notes, or lend, contribute or otherwise make available such proceeds to any subsidiary, joint venture partner or other person or entity (i) to fund or facilitate any activities of or business with any person that, at the time of such funding or facilitation, is the subject or the target of Sanctions, (ii) to fund or facilitate any activities of or business in any Sanctioned Country, in each case with respect to (i) or (ii) above, if such funding, facilitation, activity or business, as the case may be, would result in violation of Sanctions if it were carried out by an EU, UK or U.S. person, (iii) to fund, finance or facilitate any activity specified or referenced in sections 224, 225, 227, 228, 232, 233 or 234 of the CAATS Act, as amended, supplemented or supplanted from time to time, which could reasonably be expected to be a basis for the imposition of sanctions or penalties on any person as a result of such person engaging in such activity or (iv) in any other manner that will result in a violation by any person (including any person participating in the transaction, whether as underwriter, advisor, investor or otherwise) of Sanctions.

The Issuer and GTLKE each confirms that it does not make the undertaking above to the extent that this would result in a breach of (i) any provision of Council Regulation (EC) 2271/1996 of 22 November 1996 (or any law or regulation implementing such Regulation in any member state of the European Union) or (ii) any similar blocking or anti-boycott law in the United Kingdom.

## SELECTED FINANCIAL REVIEW

The following selected financial review covers the nine-month periods ended 30 September 2019 and 30 September 2018 and the years ended 31 December 2018 and 31 December 2017. Unless otherwise specified, the financial information presented in this discussion has been extracted or derived from the 2019 Interim Financial Statements and the Annual Consolidated Financial Statements without material adjustment. This section should be read in conjunction with the 2019 Interim Financial Statements and the Annual Consolidated Financial Statements and the notes thereto, and the other financial information included elsewhere in this Prospectus.

*This discussion contains forward-looking statements that involve risks and uncertainties. See “Forward-Looking Statements”. Actual results could differ materially from those anticipated in such forward-looking statements as a result of a variety of factors, including the risks discussed in the “Risk Factors” section of this Prospectus.*

### Overview

The Group is a leading Russian transportation and equipment finance and operating leasing company offering leasing services to both Russian and international enterprises, such as PJSC “Aeroflot”, “Rossiya Airlines” JSC, JSC “Aurora Airlines”, JSC “Yamal Airlines”, CJSC “IrAero Airlines”, Yakutia Airlines, JSC Azimuth Airlines, LCC “Severstal Aircompany”, easyJet (United Kingdom), Silk Way Airlines (Azerbaijan), SIA “Smartlynx Airlines” (Latvia), Alia-Royal Jordanian Airline PLC (Hashemite Kingdom of Jordan), GÜNEŞ EKSPRES HAVACILIK A.Ş. d/b/a SUN EXPRESS (Turkey) and SunExpress Deutschland GmbH (Germany) in aviation leasing; Modum-Trans, TGK, First Industrial Operator, Rail 1520 Service (United Wagon Company Group), SG-Trans and PJSC “Central exurban passenger company” in railway leasing; and BF Tanker, Pola Group and Havila Kystnuten (Norway) in maritime leasing. Such leases are principally provided for the leasing of transportation assets in the aviation, maritime and rail sectors, as well as large and high-tech equipment in the transportation infrastructure sector.

As at 31 December 2018, the Group had RUB 521,496 million in total assets (as compared to RUB 340,585 million as at 31 December 2017); RUB 434,691 million in total liabilities (as compared to RUB 275,324 million as at 31 December 2017); RUB 86,805 million in total equity (as compared to RUB 65,261 million as at 31 December 2017) and an aggregate lease portfolio of RUB 403,317 million gross of impairment allowance (as compared to RUB 271,437 million as at 31 December 2017) (composed of net investment in leases in the amount of RUB 137,066 million and assets leased out under operating leases in the amount of RUB 134,371 million), see table on page 89 of “*Business – The Group’s Business*” below for a breakdown of the Group’s aggregate lease portfolio. As at 31 December 2018, the Group’s ratio of total equity to total assets was 16.6 per cent (compared to 19.2 per cent as at 31 December 2017).

As at 30 September 2019, the Group had RUB 628,986 million in total assets; RUB 540,432 million in total liabilities; RUB 88,554 million in total equity and an aggregate lease portfolio of RUB 500,013 million gross of impairment allowance (composed of net investment in leases gross of impairment allowance in the amount of RUB 298,322 million and assets leased out under operating leases in the amount of RUB 201,691 million). As at 30 September 2019, the Group’s ratio of total equity to total assets was 14.1 per cent.

For the year ended 31 December 2018, the Group generated total interest income, being the sum of finance lease interest income and other interest income, of RUB 22,966 million (as compared to RUB 14,689 million for the year ended 31 December 2017); interest expense of RUB 24,511 million as compared to RUB 17,502 million for the year ended 31 December 2017; non-interest income, being

income from operating leases and other operating income and recovery of provisions, of RUB 24,585 million (as compared to RUB 16,161 million for the year ended 31 December 2017); and operating lease expenses of RUB 2,471 million as compared to RUB 2,087 million for the year ended 31 December 2017. Profit for the year ended 31 December 2018 amounted to RUB 607 million (as compared to losses of RUB 3,835 million for the year ended 31 December 2017). The loss recorded for 2017 was mainly the result of a one-off impairment provision for the Group's obligations relating to an embedded RUB/USD exchange rate clause in a loan agreement entered into by the Group and was not caused by any operational decline or deterioration in macro-economic conditions or asset or portfolio quality.

For the nine-month period ended 30 September 2019, the Group generated total interest income, being the sum of finance lease interest income and other interest income, of RUB 23,458 million (as compared to RUB 16,192 million for the nine-month period ended 30 September 2018); interest expense of RUB 24,532 million (as compared to RUB 17,503 million for the nine-month period ended 30 September 2018); non-interest income, being income from operating leases and other operating income, of RUB 21,444 million (as compared to RUB 17,553 million for the nine-month period ended 30 September 2018); and no amounts were recorded as operating lease expenses (as compared to RUB 1,746 million for the nine-month period ended 30 September 2018). Profit for the nine-month period ended 30 September 2019 amounted to RUB 2,452 million (as compared to RUB 523 million for the nine-month period ended 30 September 2018).

### **Key Factors affecting the Results of Operations**

#### *Operating Environment: Availability of Credit and Customer Demand*

The majority of the Group's assets and investments in leases and all of its significant customers are located in, or have businesses related to, the Russian Federation. Furthermore, the Group is wholly owned by the Russian Federation and controlled by it through the Ministry of Transport of the Russian Federation. As such, the Group is significantly affected by the macroeconomic and microeconomic conditions of the Russian economy and its legal and business operating environment (see "*Risk Factors – Risks Related To The Russian Government As The Group'S Shareholder*").

Russia has experienced deteriorating economic performance in recent years, particularly in the period 2014-2016 during which time GDP contracted, inflation rose and the Rouble significantly depreciated against a number of currencies (including the US dollar). The worsening of these and other economic indicators was the result of a combination of macro-economic and geopolitical factors. The Russian economy is to a significant degree dependent on exports of key commodities, such as oil, gas, iron ore and other raw materials. In the period from 2012 until the first half of 2014, oil prices were volatile and relatively high, but fell dramatically from the second half of 2014 through to the beginning of 2016 which resulted in sharp decreases in the revenues of the Russian Government and of privately held Russian companies operating in these sectors, which in turn had a severely negative effect on the Russian economy overall. Crude oil prices significantly recovered in 2016 and have remained relatively flat in 2017. At the same time, the Russian economy has been showing signs of recovery, with Moody's citing fiscal strength, partly improved economic prospects and effective policy-making against longer term economic challenges and exposure and sensitivity to external events, as the reasons for revising their ratings outlook for Russia to "positive" from "stable" on 25 January 2018.

Economic sanctions imposed by the United States and the EU (as well as other nations) against certain Russian individuals and legal entities (as well as retaliatory sanctions imposed by the Russian Government) in connection with Crimea's accession to the Russian Federation and the armed conflict in Eastern Ukraine have significantly interrupted international business relationships and seriously reduced the ability of Russian companies to access the international capital markets. This has contributed to an increase in net capital outflows as investments decreased and Russian and non-Russian investors sought out other geographies in which to hold capital and make investments and, in

turn, a decrease in Russia's international reserves as significant resources were spent by the CBR in an effort to support the value of the Rouble along with other government initiatives to bolster the economy and support the Russian banking sector.

The conflict in Ukraine and related events have increased the perceived risks of doing business in the Russian Federation and resulted in increased economic uncertainty which in turn has contributed to a significant tightening in the availability of credit. In particular, some Russian entities, including leasing companies, may be experiencing difficulties in accessing international equity and debt markets and may become increasingly dependent on Russian state banks to finance their operations. The lack of liquidity and available credit at rates attractive to businesses, or at all, has curtailed the capital expenditure of many companies, including state-owned enterprises. However, this has had no significant impact on the Group's access to credit to fund its operations and the volume of new business the Group was able to attract in 2017 and 2018.

The longer term effects of recently implemented sanctions, as well as the threat of additional future sanctions, are difficult to determine. The Group's management believes that it takes all the necessary efforts to support the economic stability of the Group in the current environment; however, there continues to be uncertainty regarding further economic growth and access to and cost of capital, which could negatively affect the Group's future financial position, results of operations and business prospects (see "*Risk Factors – Risks Relating to the Group's operations in the Russian Federation*").

#### *Growth of Lease Portfolio*

During the nine months ended 30 September 2019, the Group's net investment in leases net of impairment allowance increased by 31 per cent to RUB 295,524 million as at 30 September 2019 (as compared to RUB 225,637 million as at 31 December 2018). During the year ended 31 December 2018, the Group's net investment in leases net of impairment allowance increased by 66 per cent to RUB 225,637 million as at 31 December 2018 (as compared to RUB 135,916 million as at 31 December 2017). These increases were mainly driven by the following sectors: rail transportation, maritime transportation and cargo and passenger motor transportation. See "*Business – The Group'S Business*" for a more detailed discussion of the Group's growth of lease portfolio by sector. An increasing focus on the aviation sector (driven by the strong relationship with the Aeroflot group, a focus on international aviation assets and the Sukhoi Superjet 100 programme, in which long-term operating leases prevail) has led to an increase in Assets leased out under operating leases of 15 per cent to RUB 201,691 million as at 30 September 2019 from RUB 175,828 million as at 31 December 2018 and of 31 per cent to RUB 175,828 million as at 31 December 2018 from RUB 134,371 million as at 31 December 2017. Growth in this segment was mainly attributable to the implementation of the Sukhoi Superjet 100 programme (Sukhoi Superjet 100 aircraft deliveries) in 2018 and aircraft deliveries to Aeroflot and to easyJet in 2018. See "*Business – The Group'S Business*" for more detailed information on the Group's leasing operations. As a result of these factors, the aggregate lease portfolio including both finance leases (net of impairment allowance) and operating leases has risen to RUB 497,215 million as at 30 September 2019 from RUB 401,465 million as at 31 December 2018 (or by 24 per cent) and RUB 401,465 million as at 31 December 2018 from RUB 270,287 million as at 31 December 2017 (or by 49 per cent).

#### *Impairment losses and other Provision Charges*

The Group adopted IFRS 9 *Financial Instruments* issued in July 2014 with a date of initial application of 1 January 2018 and early adopted amendments to IFRS 9 on the same date. The requirements of IFRS 9 represent a significant change from IAS 39 *Financial Instruments: Recognition and Measurement*. The new standard brings fundamental changes to the accounting treatment for financial assets and to certain aspects of the accounting treatment for financial liabilities. IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model. The new impairment model also

applies to certain loan commitments and financial guarantee contracts but not to equity investments. Under IFRS 9, credit losses are recognised earlier than under IAS 39.

Impairment allowance movements in respect of non-interest bearing assets have also had a significant impact on the Group's net results. As at 31 December 2017, these movements were primarily caused by re-estimates of allowance levels upon the cancellation of finance lease agreements and collateral repossession. These movements did not correlate to any deterioration in macro-economic conditions or in asset or portfolio quality in general.

A significant contributor to the net results for the year ended 31 December 2017 was a provision charge recorded under the other operating expenses and charge of provision item. This was the result of the recognition of a provision in an amount of RUB 1,423 million for an obligation relating to an embedded RUB/USD exchange rate clause in a loan agreement entered into by the Group. This provision was recognised in accordance with the requirements of IAS 37 as the Group was able to estimate reliably the relevant obligation during that period, while a higher level of uncertainty in respect of future exchange rates and the final maturity of the instrument (which had a voluntary prepayment option) did not allow the Group to estimate it reliably in prior periods. As such, this loss was not caused by any general operational decline or deterioration in macro-economic conditions or in asset or portfolio quality and was solely attributable to characteristics of a single financial instrument.

Charge of provision for expected credit losses on interest bearing assets amounted to RUB 1,228 million for the nine months ended 30 September 2019, as compared to RUB 594 million for the nine months ended 30 September 2018. Charge of provision for credit losses on interest bearing assets amounted to RUB 1,115 million for the year ended 31 December 2018, as compared to RUB 1,852 million for the year ended 31 December 2017. Charge of provision for impairment losses on net investment in leases amounted to RUB 954 million for the nine months ended 30 September 2019. Charge of provision for impairment losses on net investment in leases amounted to RUB 680 million for the year ended 31 December 2018. Starting from 1 January 2018, in accordance with the requirements of IFRS 9, when calculating the amount of reserves, the 'loss incurred' model used previously was replaced by the 'expected loss' model. In accordance with IFRS 9, impairments are recognised for financial assets, namely advances to suppliers and loans granted. The amount of recovered reserves in respect of advances amounted to RUB 231 million and the amount of accrued reserves in respect of loans amounted to RUB 505 million at the nine-month period ended 30 September 2019. The amount of accrued reserves in respect of these assets amounted to RUB 397 million in respect of advances and RUB 38 million in respect of loans in 2018.

Charge of provision for expected credit losses on non-interest bearing assets amounted to RUB 2,849 million for the nine months ended 30 September 2019, as compared to RUB 1,671 million for the nine months ended 30 September 2018. Impairment in the amount of RUB 2,061 million was recognised for receivables under lease agreements relating to the Sukhoi Superjet 100 Programme for the nine-month period ended 30 September 2019. Therefore, this charge was not connected to the lease portfolio quality in general or to any deterioration in macro-economic conditions. Charge of provision for impairment losses on non interest-earning assets amounted to RUB 2,869 million for the year ended 31 December 2018, as compared to RUB 2,966 million for the year ended 31 December 2017. Impairment in the amount of RUB 2,468 million was recognised for receivables under lease agreements relating to the Sukhoi Superjet 100 Programme in 2018. Therefore, this charge was not connected to the lease portfolio quality in general or to any deterioration in macro-economic conditions either.

Another significant contributor to the net results for the nine-month period ended 30 September 2019 was a provision charge recorded under the other operating expenses item. This movement was primarily caused by re-estimates of allowance levels upon the cancellation of contracts in finance leasing transactions.

Furthermore, a significant contributor to the net results for the year ended 31 December 2018 was a provision charge recorded under the other operating expenses and charge of provision item. This was the result of the recognition of the impairment of assets leased out under operating leases. For aircraft with a net book value of RUB 109,267 million, an impairment analysis was prepared by using a two-stage testing method. This methodology and the assumptions used in the analysis are consistent with IAS 36. As a result of the test, the Group accrued an impairment allowance in the amount of RUB 400 million for the year ended 31 December 2018.

Any further impairment losses and provision charges could materially negatively impact the Group's profitability. Further discussion on the impairment allowance balances as at 30 September 2019 as compared to the balances as at 30 September 2018, and the balances as at 31 December 2018, as compared to the balances as at 31 December 2017, is available in the "Results of Operations for the nine months ended 30 September 2019 and 30 September 2018 and for the years ended 31 December 2018 and 31 December 2017" section below.

### Significant Accounting Policies

The Group's Significant Accounting Policies are described in Note 3 to the 2018 Consolidated Financial Statements and Note 3 to the Interim Consolidated Financial Statements for the nine month period ended 30 September 2019.

### Results of Operations for the nine months ended 30 September 2019 and 30 September 2018 and for the years ended 31 December 2018 and 31 December 2017

The following table sets out the Group's results of operations for the year and the principal components thereof for the nine months ended 30 September 2019 and 30 September 2018 and the years ended 31 December 2018 and 31 December 2017, respectively:

	Nine months ended 30 September		Year ended 31 December	
	2019 (unaudited)	2018 (unaudited)	2018	2017
	<b>(RUB million)</b>			
Finance lease interest income	20,541	14,181	20,418	13,300
Operating lease income	19,021	17,238	23,977	15,069
Other interest income	2,917	2,011	2,548	1,389
Interest expense	(24,532)	(17,503)	(24,511)	(17,502)
Operating lease expense	-	(1,746)	(2,471)	(2,087)
Depreciation of assets leased out under operating leases	(9,384)	(8,521)	(11,389)	(6,742)
	8,563	5,660	8,572	3,427
Charge of provision for credit losses on interest bearing assets <sup>(1)</sup>	(1,228)	(594)	(1,115)	(1,852)
	7,335	5,066	7,457	1,575
Administrative expenses	(1,956)	(1,903)	(2,762)	(1,958)
Other operating income and recovery of provisions <sup>(2)</sup>	2,423	315	608	1,092
Other operating expenses and charge of provisions <sup>(3)</sup>	(1,949)	(478)	(1,101)	(2,491)
Net (loss) gain on foreign exchange and derivative financial instruments <sup>(4)</sup>	69	(68)	(83)	(477)
Impairment losses on non-interest earning assets <sup>(5)</sup>	(2,849)	(1,671)	(2,869)	(2,966)
Loss from disposal of investment property and disposal of inventories and their writing down to net realisable value <sup>(6)</sup>	-	(519)	(443)	(165)

	Nine months ended 30 September		Year ended 31 December	
	2019 (unaudited)	2018 (unaudited)	2018	2017
	(RUB million)			
Profit (Loss) before taxation	3,073	742	807	(4,436)
Income tax (expense) benefit	(621)	(219)	(200)	601
Profit (Loss) for the period	2,452	523	607	(3,835)
Other comprehensive income (loss), net of income tax				
Items that are or may be reclassified subsequently to profit or loss:				
Currency translation difference	(199)	344	486	(67)
Total items that are or may be reclassified subsequently to profit or loss	(199)	344	486	(67)
Other comprehensive income (loss), net of income tax	(199)	344	486	(67)
Total comprehensive income (loss) for the period	2,253	867	1,093	(3,902)

**Notes:**

- (1) In the 2019 Interim Financial Statements this line item is referred to as “Charge of provision for expected credit losses on interest bearing assets”.
- (2) In the 2019 Interim Financial Statements this line item is referred to as “other operating income”.
- (3) In the 2019 Interim Financial Statements this line item is referred to as “other operating expenses”.
- (4) In the 2019 Interim Financial Statements this line item is referred to as “net foreign exchange translation gain (loss)”.
- (5) In the 2019 Interim Financial Statements this line item is referred to as “charge of provision for expected credit losses on non-interest bearing assets”.
- (6) In the 2019 Interim Financial Statements this line item is referred to as “(loss) profit from disposal of inventories and their writing down to net realisable value”.

*Interest income*

Interest income for the nine months ended 30 September 2019, being the sum of finance lease interest income and other interest income, was RUB 23,458 million, a 45 per cent increase, as compared to RUB 16,192 million for the nine months ended 30 September 2018. This increase was due to an increase in finance lease interest income by 45 per cent to RUB 20,541 million for the nine months ended 30 September 2019, as compared to RUB 14,181 million for the nine months ended 30 September 2018. This was interest earned on net investment in leases which increased in the nine months ended 30 September 2019, as compared to the same period in 2018 (see “*Net investment in leases*” below). Interest income for the year ended 31 December 2018, being the sum of finance lease interest income and other interest income, was RUB 22,966 million, a 56 per cent increase, as compared to RUB 14,689 million for the year ended 31 December 2017. This increase was due to an increase in finance lease interest income by 54 per cent to RUB 20,418 million for the year ended 31 December 2018, as compared to RUB 13,300 million for the year ended 31 December 2017. This was interest earned on net investment in leases which increased in the year ended 31 December 2018, as compared to the same period in 2017 (see “*Net investment in leases*” below). Interest income for the year ended 31 December 2017 was RUB 14,689 million.

The other interest income earned on cash and cash equivalents at the nine months ended 30 September 2019 and in the year ended 31 December 2018 was affected by the volume of transactions in the investment stage.



### *Interest expense*

Interest expense for the nine months ended 30 September 2019 was RUB 24,532 million, a 40 per cent increase, as compared to RUB 17,503 million for the nine months ended 30 September 2018. Interest expense for the year ended 31 December 2018 was RUB 24,511 million, a 40 per cent increase, as compared to RUB 17,502 million for the year ended 31 December 2017.

From 1 January 2019, IFRS 16 removed the classification of leases as either operating leases or finance leases, as previously required by IAS 17 and, instead, introduced a single lessee accounting model. Each lease payment is allocated between liability and finance expenses. Finance expenses are recorded as a profit or loss during the term of the lease to ensure a constant periodic rate of interest on the remaining balance of the lease liability for each period. For the nine month period ended 30 September 2019, interest expenses in the amount of RUB 573 million (out of the total interest expenses of RUB 24,532 million for the same period) were attributable to leases previously classified as operating leases. For further information on the accounting of leases previously classified as operating leases, please see Note 3 to the 2019 Interim Financial Statements.

The rise of interest expenses in the first nine months of 2019 and the year 2018 were driven by the increase in the total borrowings of the Group. As at 30 September 2019, bonds issued amounted to RUB 253,344 million, as compared to RUB 209,115 million as at 31 December 2018 and to RUB 157,049 million as at 31 December 2017, representing an increase of 21 per cent and 33 per cent respectively. The Group increased its bonds issued to fund both its growth and adjust the borrowings structure by increasing its unsecured financial indebtedness (see “*Liabilities – Bonds issued*”). This approach allowed for an observable decrease in the average weighted borrowing costs. Nonetheless, the absolute amount of interest expenses increased on the back of the significant growth in total liabilities (RUB 540,432 million as at 30 September 2019, as compared to RUB 434,691 million as at 31 December 2018 and to RUB 275,324 million as at 31 December 2017).

### *Operating lease income*

Income from operating leases increased by 10 per cent to RUB 19,021 million for the nine months ended 30 September 2019, as compared to RUB 17,238 million for the nine months ended 30 September 2018. Income from operating leases increased by 59 per cent to RUB 23,977 million for the year ended 31 December 2018, as compared to RUB 15,069 million for the year ended 31 December 2017. This increase was principally due to the increasing growth of the operating lease portfolio, which is driven by the Group's increasing focus on the aviation leasing sector, where operating leases predominate.

### *Operating lease expense*

From 1 January 2019, IFRS 16 removed the classification of leases as either operating leases or finance leases, as previously required by IAS 17 and, instead, introduced a single lessee accounting model. Therefore, no amounts were recorded as operating lease expenses for the nine month period ended 30 September 2019. For the nine month period ended 30 September 2019, interest expenses in the amount of RUB 573 million (out of the total interest expenses of RUB 24,532 million for the same period) were attributable to leases previously classified as operating leases. For further information on the accounting of leases previously classified as operating leases please see Note 3 to the 2019 Interim Financial Statements.

Operating lease expenses for the nine month period ended 30 September 2018 were RUB 1,746 million. Operating lease expenses, in the amount of RUB 2,471 million for the year ended 31 December 2018 and RUB 2,087 million for the year ended 31 December 2017, are operating expenses in nature and are recorded under a separate line. This is attributed to a lease transaction structure

entered into by the Group, under which the Group acquired seven Airbus A320-214 aircraft on the terms of operating leases and further sub-leased the same to PJSC “Aeroflot”.

#### *Depreciation of assets leased out under operating leases and operating lease expenses*

Costs related to depreciation of assets leased out under operating leases increased by 10 per cent to RUB 9,384 million for the nine months ended 30 September 2019, as compared to RUB 8,521 million for the nine months ended 30 September 2018. Costs related to depreciation of assets leased out under operating leases increased by 69 per cent to RUB 11,389 million for the year ended 31 December 2018, as compared to RUB 6,742 million for the year ended 31 December 2017. These increases are primarily attributable to the increasing amount of operating leases in the portfolio in 2018 and the increasing value of relevant assets leased out under operating leases, which in turn gave rise to depreciation charges.

#### *Results from operations before impairment*

Results from operations before impairment (which is the sum of interest income and income from operating leases less interest expenses, operating lease expenses and depreciation of assets leased out under operating leases) increased by 51 per cent to RUB 8,563 million for the nine months ended 30 September 2019, as compared to RUB 5,660 million for the nine months ended 30 September 2018. Results from operations before impairment increased by 150 per cent to RUB 8,572 million for year ended 31 December 2018, as compared to RUB 3,427 million for the year ended 31 December 2017. The increases in this measure are partially explained by the factors discussed above, including the growth in overall lease portfolio and the corresponding growth in finance lease interest income as well as in operating lease income, together with a decrease in the Rouble interest rate.

#### *Impairment losses on interest-earning assets*

Charge of provision for expected credit losses on interest bearing assets for the nine months ended 30 September 2019 amounted to RUB 1,228 million, as compared to RUB 594 million for the nine months ended 30 September 2018. Charge of provision for credit losses on interest bearing assets for the year ended 31 December 2018 amounted to RUB 1,115 million, as compared to the reversal recovery of provision for impairment losses on interest bearing assets of RUB 1,852 million for the year ended 31 December 2017.

Since 1 January 2018, the company has applied IFRS 9 for impairment of assets. IFRS 9 replaces the “incurred loss” model in IAS 39 with an “expected credit loss” model. The new impairment model also applies to certain loan commitments and financial guarantee contracts but not to equity investments.

Under IFRS 9, credit losses are recognised earlier than under IAS 39.

The Group recognises loss allowances for expected credit losses (ECL) on the following financial instruments that are not measured at FVTPL:

1. net investments in leases;
2. receivables on cancelled lease agreements and other receivables;
3. loans granted;
4. other financial assets that are debt instruments; and
5. financial guarantee contracts issued.

The Group measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

1. financial instruments from the time of initial recognition; and
2. not credit-impaired financial instruments, not overdue or delayed for more than 30 days (and not more than 180 days – for budgetary institutions), for which the credit risk has not increased significantly since their initial recognition.

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

#### *Significant increase in credit risk*

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and expert credit assessment and including forward-looking information.

The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by comparing:

1. the remaining lifetime probability of default (**PD**) as at the reporting date; with
2. the remaining lifetime PD for this point in time that was estimated at the time of initial recognition of the exposure (adjusted where relevant for changes in prepayment expectations).

#### *Credit risk grades*

The Group allocates each exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgement. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower.

Credit risk grades are defined and calibrated such that the risk of default occurring increases exponentially as the credit risk deteriorates so, for example, the difference in risk of default between credit risk grades 1 and 2 is smaller than the difference between credit risk grades 2 and 3.

Each exposure is allocated to a credit risk grade at initial recognition based on available information about the borrower. Exposures are subject to on-going monitoring, which may result in an exposure being moved to a different credit risk grade. The monitoring typically involves use of the following data:

1. information obtained during periodic review of customer files – e.g. audited financial statements, management accounts, budgets and projections;
2. information about payments, including the status of overdue amounts;
3. data from credit reference agencies, press articles, changes in external credit ratings; and
4. actual and expected significant changes in the political, regulatory and technological environment of the borrower or in its business activities.

### *Generating the term structure of PD*

Credit risk grades are a primary input into the determination of the term structure of PD for exposures. The Group collects performance and default information about its credit risk exposures analysed by jurisdiction or region and by type of product and borrower as well as by credit risk grading.

The Group employs statistical models to analyse the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time.

This analysis includes the identification and calibration of relationships between changes in default rates and changes in key macro-economic factors as well as in-depth analysis of the impact of certain other factors on the risk of default.

The Group uses expert judgement in assessment of forward-looking information. This assessment is based also on external information. The Group then uses these forecasts to adjust its estimates of PDs.

### *Determining whether credit risk has increased significantly*

The Group assesses whether credit risk has increased significantly since initial recognition at each reporting period. Criteria for significantly increased credit risk depends on PD at the date of initial recognition. The criteria for determining whether credit risk has increased significantly vary by portfolio and include quantitative changes in PDs and qualitative factors, including a backstop based on delinquency.

In measuring increases in credit risk, remaining lifetime ECLs are adjusted for changes in maturity.

Using its expert credit judgement and, where possible, relevant historical experience, the Group may determine that an exposure has undergone a significant increase in credit risk based on particular qualitative indicators that it considers are indicative of such and whose effect may not otherwise be fully reflected in its quantitative analysis on a timely basis.

As a backstop, the Group considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due (180 days – for budgetary institutions, whose financial security is carried out by corresponding budget). Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received.

The Group monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

1. the criteria are capable of identifying significant increases in credit risk before an exposure is in default;
2. the criteria do not align with the point in time when an asset becomes 30 days past due;
3. the average time between the identification of a significant increase in credit risk and default appears reasonable;
4. exposures are not generally transferred directly from 12-month ECL measurement (stage 1) to credit-impaired (stage 3); and
5. there is no unwarranted volatility in loss allowance from transfers between 12-month ECL (stage 1) and lifetime ECL measurements (stage 2).

### *Modified financial assets*

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognised and the renegotiated loan recognised as a new loan with modified terms.

When the terms of a financial asset are modified and the modification does not result in derecognition, the determination of whether the asset's credit risk has increased significantly reflects the comparison of:

1. its remaining lifetime PD at the reporting date based on the modified terms; with
2. the remaining estimated lifetime PD based on data at initial recognition and the original contractual terms.

The Group renegotiates loans to customers in financial difficulties (referred to as “forbearance activities”) to maximise collection opportunities and minimise the risk of default. Under the Group's forbearance policy, loan forbearance is granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default; there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms; and the debtor is expected to be able to meet the revised terms.

The revised terms usually include extending the maturity and/or changing the timing of lease payments.

For financial assets modified as part of the Group's forbearance policy, the estimate of PD reflects whether the modification has improved or restored the Group's ability to collect interest and principal and the Group's previous experience of similar forbearance action. As part of this process, the Group evaluates the borrower's payment performance against the modified contractual terms and considers various behavioural indicators.

Generally, forbearance is a qualitative indicator of a significant increase in credit risk and an expectation of forbearance may constitute evidence that an exposure is credit-impaired/in default. A customer needs to demonstrate consistently good payment behaviour over a period of time before the exposure is no longer considered to be credit-impaired/in default or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to 12-month ECL.

### *Definition of default*

The Group considers a financial asset to be in default when:

1. the counterparty is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as withdrawal of a leased asset;
2. the counterparty is past due more than 90 days on any material credit obligation to the Group (and more than 270 days – for budgetary institutions, whose financial security is carried out by corresponding budget); or
3. it is becoming probable that the borrower will restructure the asset as a result of bankruptcy due to the counterparty's inability to pay its credit obligations.

In assessing whether a borrower is in default, the Group considers indicators that are:

1. quantitative – e.g. overdue status and non-payment on another obligation of the same issuer to the Group; and
2. based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

#### *Incorporating forward-looking information*

The Group incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. The Group uses expert judgement in assessment of forward-looking information. This assessment is based also on external information.

#### *Measurement of ECL*

The key inputs into the measurement of ECL are the term structure of the following variables:

1. probability of default (**PD**);
2. loss given default (**LGD**); and
3. exposure at default (**EAD**).

These parameters are generally derived from internally developed statistical models and other historical data. They are adjusted to reflect forward-looking information as described above.

PD estimates are estimates at a certain date, which are calculated based on statistical rating models, and assessed using rating tools tailored to the various categories of counterparties and exposures. These statistical models are based on internally compiled data comprising both quantitative and qualitative factors. Where available, market data may also be used to derive the PD for large corporate counterparties. If a counterparty or exposure migrates between rating classes, then this will lead to a change in the estimate of the associated PD. PDs are estimated considering the contractual maturities of exposures and estimated prepayment rates.

The Group estimates LGD parameters based on the history of recovery rates as the result of leased assets disposal against defaulted counterparties. The LGD models consider the type of leased asset, production date, market value, cost of impoundment, storage and the term needed for leased asset disposal. LGD estimates are recalibrated for different economic scenarios and to reflect possible changes in leased assets prices. They are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

EAD represents the expected exposure in the event of a default. The Group derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortisation. The EAD of a financial asset is its gross carrying amount.

As described above, and subject to using a maximum of a 12-month PD for financial assets for which credit risk has not significantly increased, the Group measures ECL considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk, even if, for risk management purposes, the Group considers a longer period.

### *Approach for impairment assessment before 1 January 2018*

The Group evaluates the impairment of net investment in leases on an individual and a collective basis.

The objective indicators of impairment include the following:

1. overdue payments under a leasing contract;
2. significant difficulties in the financial position of a lessee;
3. deterioration in business environment;
4. negative changes in certain industrial markets; and
5. decreasing value of the leased object.

The following factors and estimates are taken into account when identifying any allowance for impairment amount: the realisable value of the collateral; the timeframe of expected cash flows; the sustainability of the lessee's business plan; and the ability of the lessee to improve performance in case of financial difficulties.

Evaluation is performed on a collective basis with respect to the lease agreements that are not individually significant or to the individually significant transactions where there are no indications of individual impairment.

The Group utilises both discounted cash flows and value-in-use approaches to estimate impairment on an individual basis. This is the case for leases with signs of impairment and for lease transactions which are deemed to be individually significant for the Group. The impairment test is based on analysis of discounted cash flows, whereas the discount rate is selected in accordance with management's judgement that takes several factors into account. An observable decrease in Rouble interest rates took place 2017 and in 2016 and a substantial part of the Group's leases are denominated in RUB. The combination of the two factors led to a decrease in the expected return rates applicable to impairment tests, thus reducing the balance of the impairment allowances.

The change in the impairment allowance movements in 2017 was driven by the growth in the Group's net investment in leases and the corresponding growth of the impairment allowance evaluated on a collective basis.

Charge of provision for impairment losses on net investment in leases amounted to RUB 954 million for the nine months ended 30 September 2019. Charge of provision for impairment losses on net investment in leases amounted to RUB 680 million for the year ended 31 December 2018. In accordance with the requirements of IFRS 9, when calculating the amount of reserves, the 'loss incurred' model used previously was replaced by the 'expected loss' model. In accordance with IFRS 9, impairments are recognised for financial assets, namely advances to suppliers and loans granted. The amount of recovered reserves in respect of advances amounted to RUB 231 million and the amount of accrued reserves in respect of loans amounted to RUB 505 million at the nine-month period ended 30 September 2019. The amount of accrued reserves in respect of these assets amounted to RUB 397 million in respect of advances and RUB 38 million in respect of loans in 2018.

### *Results from operations after impairment of interest-earning assets*

The Group's results from operations for the nine months ended 30 September 2019, after impairment of interest-earning assets, amounted to RUB 7,335 million as compared to RUB 5,066 million for the

nine months ended 30 September 2018. The Group's results from operations for the year ended 31 December 2018, after impairment of interest-earning assets, amounted to RUB 7,457 million as compared to RUB 1,575 million for the year ended 31 December 2017.

#### *Administrative expenses*

The Group recorded administrative expenses of RUB 1,956 million for the nine months ended 30 September 2019, as compared to RUB 1,903 million for the nine months ended 30 September 2018 representing an increase of 3 per cent. The Group recorded administrative expenses of RUB 2,762 million for the year ended 31 December 2018, as compared to RUB 1,958 million for the year ended 31 December 2017, representing an increase of 41 per cent. This increase in 2018 was primarily caused by increases in the Group's salary and related social costs which increased by 49 per cent from RUB 1,204 million for the year ended 31 December 2017 to RUB 1,790 million for the year ended 31 December 2018. This increase principally reflected the Group's recruitment of additional experienced leasing and management personnel which is in line with the Group's strategy and increased business volumes.

#### *Other operating income and recovery of provisions*

Other operating income increased to RUB 2,423 million for the nine months ended 30 September 2019 from RUB 315 million for the nine months ended 30 September 2018. This was driven by an increase in (i) income from the sale of a 95 per cent share in the charter capital of Limited Liability Company "Morskoy port "Lavna" (**Lavna LLC**) in the amount of RUB 1,137 million; (ii) from the sale profit from the early sale of leased assets in the amount of RUB 717 million; and (iii) an increase in charges and penalties to RUB 353 million in the nine months ended 30 September 2019 from RUB 109 million in the nine months ended 30 September 2018.

Other operating income and recovery of provisions decreased by 44 per cent to RUB 608 million for the year ended 31 December 2018 from RUB 1,092 million for the year ended 31 December 2017. This was driven by a fall in income from charges and penalties from RUB 522 million in 2017 to RUB 329 million in 2018 as well as a significant fall in other income from RUB 570 million in 2017 to RUB 279 million in 2018.

#### *Other operating expenses and charge of provisions*

Other operating expenses increased by 408 per cent to RUB 1,949 million in the nine months ended 30 September 2019 from RUB 478 million in the corresponding period in 2018. This was driven by an increase in expenses for scheduled maintenance of rolling stock and in expenses for remarketing aircraft accounting for RUB 1,110 million of operating expenses. Other operating expenses and charge of provisions decreased by 56 per cent to RUB 1,101 million in the year ended 31 December 2018 from RUB 2,491 million in the corresponding period in 2017. In 2017, as a result of the recognition of a provision for obligations relating to an embedded RUB/USD exchange rate clause in a loan agreement entered into by the Group in the amount of RUB 1,423 million was recognised as a part of other operating expenses. This provision was recognised in accordance with the requirements of IAS 37 as the Group was able to estimate reliably the relevant obligations during that period, while a higher level of uncertainty in respect of future exchange rates and the final maturity of the instrument (which had a voluntary prepayment option) did not allow the Group to estimate it reliably in prior periods. As such, this loss was not caused by any operational decline or deterioration in macro-economic conditions or in asset or portfolio quality and it is solely attributable to characteristics of a single financial instrument.



#### *Foreign exchange translation gain / loss*

Foreign exchange translation gain amounted to RUB 69 million for the nine months ended 30 September 2019, as compared to foreign exchange translation loss of RUB 68 million for the nine months ended 30 September 2018. Foreign exchange translation loss amounted to RUB 83 million for the year ended 31 December 2018, as compared to a foreign exchange translation gain of RUB 477 million for the year ended 31 December 2017. This foreign exchange translation loss was primarily driven by the depreciation of the Rouble in 2018.

#### *Impairment losses on non interest-earning assets*

For the nine months ended 30 September 2019, the Group recorded impairment losses on non interest-earning assets of RUB 2,849 million as compared to RUB 1,671 million for the nine months ended 30 September 2018, representing an increase of 70 per cent. This impairment related to the Group's customers who receive state subsidies experiencing delays in receiving such contributions because of delays in funds being distributed under the state budget, with the result that the Group had to provision for non-payment and default of such leases in the 2019 Interim Financial Statements and the 2018 Consolidated Financial Statements. These customers are expected to make payments under their leases once the state funding has been paid out under the state budget. For the year ended 31 December 2018, the Group recorded impairment losses on non interest-earning assets of RUB 2,869 million as compared to RUB 2,966 million for the year ended 31 December 2017, representing a decrease of 3 per cent. This decrease in impairment losses was primarily a result of decreased impairment allowances in respect of receivables under cancelled finance lease agreements.

#### *Profit before taxation*

Reflecting the above factors, the Group generated profit before taxation of RUB 3,073 million for the nine months ended 30 September 2019, compared with profit before taxation of RUB 742 million for the nine months ended 30 September 2018. The Group generated profit before taxation of RUB 807 million for the year ended 31 December 2018 compared with loss before taxation of RUB 4,436 million for the year ended 31 December 2017.

#### *Income tax expense*

The Group's income tax expense was RUB 621 million for the nine months ended 30 September 2019, compared to income tax expense of RUB 219 million for the nine months ended 30 September 2018. The Group's income tax expense was RUB 200 million for the year ended 31 December 2018, compared to income tax benefit of RUB 601 million for the year ended 31 December 2017. Deferred and current income tax assets and liabilities for STLC are measured at 20 per cent. The applicable tax rate for GTLKE and its subsidiaries is 12.5 per cent. Note 16 to the 2018 Consolidated Financial Statements sets out further information on the Group's tax charge. The significant rise in income tax expense for the year ended 31 December 2018 above the theoretical levels of the effective tax rates was due to non-taxable expenses details of which are contained in Note 6 to the 2018 Consolidated Financial Statements.

#### *Profit for the period*

Reflecting the above factors (including the RUB 1,137 million one-off income from the sale of a 95 per cent share in Lavna LLC), the Group's profit for the nine months ended 30 September 2019 was RUB 2,452 million as compared to a profit of RUB 523 million for the nine months ended 30 September 2018. The Group's profit for the year ended 31 December 2018 was RUB 607 million as compared to a loss of RUB 3,835 million for the year ended 31 December 2017.

**Analysis of Financial Condition as at 30 September 2019, 31 December 2018 and 31 December 2017**

	<b>30 September 2019 (unaudited)</b>	<b>31 December 2018</b>	<b>31 December 2017</b>
	<b>(RUB million)</b>		
<b>Assets</b>			
Cash and cash equivalents	24,067	13,855	12,525
Deposits in banks	64	2,301	-
Derivative financial instruments	184	-	58
Other receivables	11,466	16,573	8,439
Advances to suppliers	68,539	57,104	35,818
Equipment purchased for leasing purposes	1,014	1,967	-
Loans granted	6,955	13,363	-
VAT receivable <sup>(1)</sup>	4,574	4,044	3,983
Income tax receivable	62	61	148
Inventories	368	349	961
Net investment in leases	295,524	225,637	135,916
Assets leased out under operating leases	201,691	175,828	134,371
Asset under concession agreement	7,203	3,375	-
Investment property	4,470	4,541	6,233
Fixed assets and intangible assets <sup>(2)</sup>	538	195	134
Deferred tax asset <sup>(3)</sup>	2,267	2,303	2,009
<b>Total assets</b>	<b>628,986</b>	<b>521,496</b>	<b>340,585</b>
<b>Liabilities</b>			
Loans and credits received	246,944	193,209	87,726
Finance lease liabilities <sup>(4)</sup>	26,048 <sup>(5)</sup>	19,339	17,620
Bonds issued	253,344	209,115	157,049
Derivative financial instruments	-	1,377	-
Trade and other payables	7,179	8,122	11,708
Advances received	5,901	2,754	782
Deferred tax liabilities <sup>(6)</sup>	829	683	405
Income tax payable	99	39	-
Other than income tax payable	88	53	34
<b>Total liabilities</b>	<b>540,432</b>	<b>434,691</b>	<b>275,324</b>
<b>Equity</b>			
Share capital	68,637	68,637	68,637
Additional capital	20,700	20,700	-
(Accumulated losses) retained earnings	(884)	(2,832)	(3,190)
Currency translation difference	101	300	(186)
<b>Total equity</b>	<b>88,554</b>	<b>86,805</b>	<b>65,261</b>
<b>Total liabilities and equity</b>	<b>628,986</b>	<b>521,496</b>	<b>340,585</b>

**Notes:**

(1) In the 2019 Interim Financial Statements this line item is referred to as “amounts due from lessees related to VAT payable”.

(2) In the 2019 Interim Financial Statements this line item is referred to as “fixed assets, intangible assets and right-of-use assets”.

(3) In the 2019 Interim Financial Statements this line item is referred to as “deferred income tax asset”.

(4) In the 2019 Interim Financial Statements this line item is referred to as “lease liabilities” and reflects the change to IFRS 16 (see “Liabilities – (Finance) lease liabilities” below and Note 3 to the 2019 Interim Financial Statements).

(5) The figure reflects the change to IFRS 16 (see “Liabilities – (Finance) lease liabilities” below and Note 3 to the 2019 Interim Financial Statements).

(6) In the 2019 Interim Financial Statements this line item is referred to as “deferred income tax liabilities”.

## *Assets*

As at 30 September 2019, the Group had total assets of RUB 628,986 million, an increase of 21 per cent as compared to RUB 521,496 million as at 31 December 2018 (which was itself an increase of 53 per cent as compared to RUB 340,585 million as at 31 December 2017). As at 30 September 2019, the Group's ratio of total equity to total assets was 14.1 per cent (as compared to 16.6 per cent as at 31 December 2018 and 19.2 per cent as at 31 December 2017).

### *Cash and cash equivalents*

As at 30 September 2019, the Group had cash and cash equivalents of RUB 24,067 million as compared to RUB 13,855 million as at 31 December 2018 and RUB 12,525 million as at 31 December 2017. The Group held greater amounts of cash and cash equivalents plus longer deposits with banks of RUB 64 million as at 30 September 2019 (as compared to RUB 2,301 million as at 31 December 2018, and none at 31 December 2017) in order to meet upcoming debt redemptions which have now occurred. A significant portion of cash and cash equivalents represented deposits (RUB 5,884 million as at 30 September 2019, RUB 9,322 million as at 31 December 2018, as compared to RUB 4,852 million as at 31 December 2017).

### *Net investment in leases*

As at 30 September 2019, the Group had net investment in leases of RUB 295,524 million, an increase of 31 per cent as compared to RUB 225,637 million as at 31 December 2018 (which in turn is an increase of 66 per cent as compared to RUB 135,916 million as at 31 December 2017). This increase was driven by an increase in net investment in leases in the following segments: rail transportation, maritime transportation and cargo and passenger motor transportation. As at 31 December 2018 and 31 December 2017, certain assets leased out under finance leases and/or future lease payments under such finance lease contracts were pledged to secure loans received. As at 31 December 2018, net investment in leases totalling RUB 156,654 million were related to assets used to collateralise loans received, compared with RUB 59,281 million as at 31 December 2017 (see Note 7 to the 2018 Consolidated Financial Statements).

From 1 January 2019, a lease is recognised as a right-of-use asset and relevant liability as at the date when the leased asset is available for use by the Group. Each lease payment is allocated between liability and finance expenses. Finance expenses are recorded as profit or loss during the term of the lease to ensure a constant periodic rate of interest on the remaining balance of the lease liability for each period. A right-of-use asset is amortised on a straight-line basis during the shortest term of useful life of the asset and lease term.

A sublease is a transaction for which the Group as a lessee grants a right to use the asset to a third party, and the lease between the original lessor and the Group remains in effect. A lease and a sublease in accounting records are reflected as two different agreements. Before 31 December 2018, subleases (with the Group as a lessor) associated with operating leases (the Group as a lessee) were classified as operating lease in accordance with IAS 17. As at the date of the initial application of IFRS 16, such subleases were reclassified based on the remaining contractual terms and conditions in leases and subleases as at 1 January 2019. As a result of the analysis, from 1 January 2019, such subleases are accounted for as new finance leases, as if they were concluded on 1 January 2019 (on the date of the initial application of IFRS 16). Right-of-use assets included assets in the amount of RUB 16,033 million related to subleases (finance leases from 1 January 2019), for which reason, as at 1 January 2019, these amounts were reclassified and included in the "Net investment in leases" line of the consolidated statement of financial position.

The following tables set out the outstanding contractual maturity profile of gross and net investment in leases as at 30 September 2019, 31 December 2018, and 31 December 2017, respectively:

The outstanding contractual maturities of the net investment in leases as at 30 September 2019 are as follows:

**30 September 2019 (unaudited)**  
**(RUB million)**

	Gross investment in leases	Repayment of unearned income	Net investment in leases gross of impairment allowance	Impairment allowance	Net investment in leases
Overdue and with maturity less than one month	5,348	(2,589)	2,759	(108)	2,651
From one to three months	8,589	(4,853)	3,736	(18)	3,718
From three to six months	11,415	(7,248)	4,167	(72)	4,095
From six months to one year	23,871	(14,211)	9,660	(159)	9,501
From one year to five years	174,890	(95,197)	79,693	(1,393)	78,300
More than five years	290,128	(91,821)	198,307	(1,048)	197,259
<b>Total</b>	<b>514,241</b>	<b>(215,919)</b>	<b>298,322</b>	<b>(2,798)</b>	<b>295,524</b>

The outstanding contractual maturities of the net investment in leases as at 31 December 2018 are as follows:

**31 December 2018**  
**(RUB million)**

	Gross investment in leases	Repayment of unearned income	Net investment in leases gross of impairment allowance	Impairment allowance	Net investment in leases
Overdue and with maturity less than one month	4,054	(2,088)	1,966	(68)	1,898
From one to three months	6,488	(3,715)	2,773	(18)	2,755
From three to six months	9,396	(5,758)	3,638	(27)	3,611
From six months to one year	18,556	(11,344)	7,212	(59)	7,153
From one year to five years	138,021	(75,001)	63,020	(797)	62,223
More than five years	220,334	(71,454)	148,880	(883)	147,997
<b>Total</b>	<b>396,849</b>	<b>(169,360)</b>	<b>227,489</b>	<b>(1,852)</b>	<b>225,637</b>

The outstanding contractual maturities of the net investment in leases as at 31 December 2017 are as follows:

**31 December 2017**  
**(RUB million)**

	Gross investment in leases	Repayment of unearned income	Net investment in leases gross of impairment allowance	Impairment allowance	Net investment in leases
Overdue and less than one month	2,342	(1,437)	905	(80)	825
From one to three months	4,560	(2,535)	2,025	(15)	2,010
From three to six months	6,868	(3,923)	2,945	(22)	2,923
From six months to one year	11,944	(7,701)	4,243	(36)	4,207
From one year to five years	91,819	(50,360)	41,459	(354)	41,105
More than five years	129,503	(44,014)	85,489	(643)	84,846
<b>Total</b>	<b>247,036</b>	<b>(109,970)</b>	<b>137,066</b>	<b>(1,150)</b>	<b>135,916</b>

For a breakdown of the Group's net investment in leases by sector, see "*Business – The Group's Business – Leasing operations of the Group – Finance Leasing – Commercial finance leases*".

### *Derivative financial instruments*

Derivative financial instruments amounted to an asset of RUB 184 million as at 30 September 2019, as compared to a liability of RUB 1,377 million as at 31 December 2018, and an asset of RUB 58 million as at 31 December 2017. Derivative financial instrument transactions are entered into by the Group primarily to mitigate the effect of probable foreign exchange rate fluctuations on its financial results because a significant part of its operations is denominated in USD. Derivative Financial Instruments represent the fair value of the relevant financial instruments. Any change in the fair value of the cross-currency derivative instruments is recorded in the statement of profit or loss as effected by exchange rates.

### *Other receivables*

Other receivables, net of impairments, were RUB 11,466 million as at 30 September 2019, a 31 per cent decrease as compared to RUB 16,573 million as at 31 December 2018. The decrease in the nine months ended 30 September 2019 was primarily due to the repayment receivables on a state subsidy to additional capital. Other receivables, net of impairments as at 31 December 2018 demonstrated a 96 per cent increase as compared to RUB 8,439 million as at 31 December 2017. As discussed in Note 23 to the 2018 Consolidated Financial Statements, this increase was due to an increase in receivables on a state subsidy to additional capital to RUB 5,900 million as at 31 December 2018 as compared to no receivables on a state subsidy to additional capital as at 31 December 2017 which are represented by receivables of a subsidy from the state. The RUB 5,900 million receivables from the state were paid to STLC on 29 March 2019.

Other receivables represent amounts due payable under the buyout agreements with certain lessees. Buyout agreements were entered into with TGK in respect of certain railway rolling stock units. Under these agreements the title to the relevant assets was passed to the lessee. Payments under the agreements are structured to be received in instalments during a five-year period (2017-2021). The Group has also recorded a deferred rental expense in the amount of RUB 2,307 million as at 30 September 2019, as compared to RUB 2,712 million as at 31 December 2018 and RUB 2,249 million as at 31 December 2017. The deferred rental expense arose from an operating lease transaction, in respect of seven Airbus A320-214 aircraft, under which the Group acts as the lessee. The receivables on cancelled lease agreements decreased by 7.0 per cent in the six months ended 30 September 2019 as a result of stabilisation in the core sectors in which the company operates.

### *Advances to suppliers*

As part of the lease arrangements entered into with lessees, the Group may agree to advance payment to an equipment supplier ahead of construction of an asset to be leased. Advances to suppliers (of assets to be leased out and fixed assets) were RUB 68,539 million as at 30 September 2019, an increase of 20 per cent as compared to RUB 57,104 million as at 31 December 2018 (as compared to RUB 35,818 million as at 31 December 2017). This increase was primarily driven by a further increase in the Group's railway and aviation business together with the implementation of government-supported projects to provide stimulus for the local economy. To accommodate the risk of increasing prices for railcars, the company started to enter into purchase agreements whereby it fixes prices for long-term deliveries. As at 30 September 2019, advances to five major Russian suppliers represented 61 per cent of the total amount as compared to 65 per cent as at 31 December 2018 and 75 per cent as at 31 December 2017. In accordance with IFRS 9, the company recognised impairment allowance related to advances to suppliers in the amount of RUB 166 million as at 30 September 2019 (compared to RUB 397 million as at 31 December 2018, and no impairment allowance as at 31 December 2017).

### *Loans granted*

As at 30 September 2019, the Group had loans granted of RUB 6,955 million, compared to RUB 13,363 million as at 31 December 2018 and to no outstanding loans as at 31 December 2017. The decrease of Loans granted as of 30 September 2019 (compared to 31 December 2018) was a result of the reclassification of a loan to Deep Sky Leasing Fourteen Limited of RUB 10,518 million under an aircraft purchase agreement as assets leased out under operating leases in the balance sheet. In the first nine months of 2019, new loans were also provided to third parties.

### *Assets leased out under operating leases*

Assets leased out under operating leases are primarily represented by aircraft (which account for 96.8 per cent of the total assets leased out under operating leases) and also include railroad rolling stock. Assets leased out under operating leases amounted to RUB 201,691 million as at 30 September 2019, an increase of 15 per cent as compared to RUB 175,828 million as at 31 December 2018 (which was itself an increase of 31 per cent as compared to RUB 134,371 million as at 31 December 2017). The increase resulted from the Group's strategies of increasing its focus on aviation leasing and increasing its share of operating leases (see "*Business – Strategy*"). The increase was attributable to the implementation of the Sukhoi Superjet 100 programme (Sukhoi Superjet 100 aircraft deliveries) and aircraft deliveries to Aeroflot in the first nine months of 2019. See "*Business – The Group'S Business – Finance Leasing – Commercial finance leases*" for more detailed information on the Group's leasing operations. For aircraft with a net book value of RUB 109,267 million, an impairment analysis was prepared by using a two-stage testing method. This methodology and the assumptions used in the analysis are consistent with IAS 36. As a result of this testing, the Group accrued an impairment allowance for assets leased out under operating lease in the amount of RUB 400 million for the year ended 31 December 2018.

### *Investment property*

Investment property amounted to RUB 4,470 million as at 30 September 2019 as compared to RUB 4,541 million as at 31 December 2018 and RUB 6,223 million as at 31 December 2017. Certain assets held by the Group are recorded as investment property as the Group is planning to benefit from growth of the market value of such assets together with the associated operating lease income. Investment property assets are usually leased out under short- to mid-term operating lease agreements.

The major investment in investment property over the period from 2015 to 30 September 2019 is primarily attributable to the construction of the "TLC Yuzhnouralsky" container terminal financed by the Group. The TLC Yuzhnouralsky container terminal, which was commenced in 2013, is the largest infrastructure facility in the Eurasian transport corridor and represents a highly strategic site for the development of the Silk Road Economic Belt. Cargo deliveries from this terminal will be made directly by rail and road. The centre's total area is 180 hectares with 82,000m<sup>2</sup> of Class A warehouse space and it is designed to process 2.5 million tonnes of freight traffic per year or simultaneously store up to 4,000 containers per day. The first stage of the project began operations in May 2015.

In 2016, the Group made its first investment in a coal transshipment facility known as "Morskoy Port Lavna" in the Murmansk region. In 2018 the Group signed a concession agreement and proceeded with construction of the facility. In the 2018 Consolidated Financial Statements and in the 2019 Interim Financial Statements, Lavna investments were represented by a separate balance sheet item "Asset under concession agreement".

In April 2019, the Group sold a 95 per cent share in the charter capital of Lavna LLC for cash. The Group recognised profit from the sale of the shares in the amount of RUB 1,137 million, which is included in the "other operating income" line of the interim consolidated condensed statement of profit or loss and other comprehensive income for the nine-month period ended 30 September 2019.

Under a shareholders' agreement, STLC continues to own existing rights ensuring its ability to manage important activities of Lavna LLC and accordingly STLC continues to maintain control over the company. In accordance with IFRS 10, Lavna LLC continues to be STLC's subsidiary, despite the decrease in the Company's ownership interest in the company down to 5 per cent, as STLC continues to hold a significant non-controlling interest in Lavna LLC due to the shareholders' agreement.

### ***Liabilities***

As at 30 September 2019, the Group had total liabilities of RUB 540,432 million, an increase of 24 per cent as compared to RUB 434,691 million as at 31 December 2018 (which was itself an increase of 58 per cent as compared to RUB 275,324 million as at 31 December 2017).

#### *Loans and credits received*

Bank loans are received by the Group to purchase assets to be leased and are generally collateralised by the assets or rights to lease proceeds. Bank loans amounted to RUB 246,944 million as at 30 September 2019, an increase of 28 per cent as compared to RUB 193,209 million as at 31 December 2018 (which was itself an increase of 120 per cent as compared to RUB 87,726 million as at 31 December 2017).

#### *(Finance) lease liabilities*

From 1 January 2019, a lease is recognised as a right-of-use asset and relevant liability as at the date when the leased asset is available for use by the Group. Each lease payment is allocated between liability and finance expenses. Finance expenses are recorded as a profit or loss during the term of the lease to ensure a constant periodic rate of interest on the remaining balance of the lease liability for each period. A right-of-use asset is amortised on a straight-line basis during the shortest term of useful life of the asset and lease term.

The new standard sets out the principles for the recognition, measurement, presentation and disclosure of lease operations. All leases result in the lessee obtaining the right to use an asset at the inception of the lease and, if lease payments are made over time, also obtaining financing. From 1 January 2019, IFRS 16 removed the classification of leases as either operating leases or finance leases, as previously required by IAS 17 and, instead, introduced a single lessee accounting model. The Group applied this standard using a modified retrospective method without restating comparative figures. As at 1 January 2019, the Group recognised a lease liability in the amount of RUB 16,315 million and the relevant right-of-use assets, which were measured in the amount equal to the lease liability adjusted for the amount of prepaid or accrued operating lease payments under these leases reflected as at 31 December 2018. As at 30 September 2019, the lease liability amounted to RUB 14,617 million. For further information on the accounting of leases previously classified as operating leases, please see Note 3 to the 2019 Interim Financial Statements.

Lease liabilities amounted to RUB 26,048 million as at 30 September 2019, an increase of 35 per cent as compared to finance lease liabilities of RUB 19,339 million as at 31 December 2018 (which was itself an increase of 10 per cent as compared to finance lease liabilities of RUB 17,620 million as at 31 December 2017). The increase in the first nine months of 2019 was driven by the adoption of IFRS 16, as described in the paragraph above. For further information on the accounting of lease liabilities please see Note 3 to the 2019 Interim Financial Statements.

In March 2019, the Group obtained a USD 182.7 million facility from a major Chinese lessor in order to refinance five Airbus A320-214 on lease to PJSC "Aeroflot" which was structured as a sale and finance lease-back transaction. As at 30 September 2019, accrued interest under finance leases in the amount of RUB 6 million was recognised as lease liabilities and accrued expenses, as compared to RUB 20 million as at 31 December 2018 and RUB 12 million as at 31 December 2017. As at 30

September 2019, all lease liabilities are denominated in USD and bear an average effective interest rate of 5.0 per cent per annum (31 December 2018: 6.3 per cent and 31 December 2017: 5.7 per cent). See “Funding” below.

#### *Bonds issued*

Since 2013, the Group has been issuing documentary interest bearing non-convertible bonds in the Russian domestic and international market. Bonds issued amounted to RUB 253,344 million as at 30 September 2019, as compared to RUB 209,115 million as at 31 December 2018 and to RUB 157,049 million as at 31 December 2017, representing an increase of 21 per cent and 33 per cent respectively.

#### *Trade and other payables*

Trade and other payables amounted to RUB 7,179 million as at 30 September 2019, a decrease of 12 per cent as compared to RUB 8,122 million as at 31 December 2018 (which was itself a decrease of 31 per cent as compared to RUB 11,708 million as at 31 December 2017). The decrease in 30 September 2019 and the decrease in 2018 was reflected a change in the acceptance of assets for lease.

#### *Advances received*

Advances received amounted to RUB 5,901 million as at 30 September 2019, compared to RUB 2,754 million as at 31 December 2018 and RUB 782 million as at 31 December 2017. These payments represent advance payments required from lessees pursuant to certain types of leases in advance of delivery of the leased assets.

#### **Equity**

Total equity increased to RUB 88,554 million as at 30 September 2019 as compared to RUB 86,805 million as at 31 December 2018 and to RUB 65,261 million as at 31 December 2017. As at 30 September 2019, the Group’s ratio of total equity to total assets in local currency was 14.1 per cent (as compared to 16.6 per cent as at 31 December 2018 and 19.2 per cent as at 31 December 2017).

In 2018, the Government of the Russian Federation announced subsidies for STLC in an amount of RUB 20,700 million of which RUB 14,800 million was disbursed by 31 December 2018. The remaining RUB 5,900 million was recorded as other receivables as at 31 December 2018, as discussed in more detail in Note 23 to the 2018 Consolidated Financial Statements. STLC received RUB 5,900 million financing on 29 March 2019. In 2017, RUB 11,278 million of capital was contributed to STLC by the Government of the Russian Federation through capital contributions provided by the Russian Transport System Federal Development Program (2010-2020), in particular to co-finance the construction of two new auto-railway ferries at the Vanino-Kholmsk line in the Far East.

In 2019 and 2018, the Group declared and paid dividends for the years ended respectively 31 December 2018 (RUB 504 million) and 31 December 2017 (RUB 108 million). In 2017, the Group paid no dividend for the year ended 31 December 2016. Dividend per share is calculated on a non-diluted basis taking into account the outstanding amount of the shares as at the relevant reporting date.

#### **Funding**

The Group has a diversified funding structure and funds its leasing operations primarily through a combination of dedicated and generalised credit facilities, bonds and lease liabilities as well as support from its parent, the Russian Federation. The Group has achieved a diverse funding base with a broad range of financing instruments available to ensure access to capital despite possible volatility in debt markets. As at 30 September 2019, 61 per cent of the Group’s total debt funding (sum of loans



received, lease liabilities and bonds issued) was denominated in RUB and 39 per cent was denominated in USD (compared to 63 per cent and 37 per cent respectively, as at 31 December 2018).

On 12 February 2019, Moody's upgraded STLC's long-term corporate family rating to "Ba1" from "Ba2" and GTLKE's foreign currency backed senior unsecured debt rating to "Ba2" from "Ba3" both with stable outlook. On 21 June 2019, S&P upgraded STLC's long-term credit ratings in foreign and national currencies to "BB" from "BB-", outlook was changed to "stable" from "positive". Short-term credit rating was affirmed at "B". On 19 August 2019, Fitch upgraded STLC's long-term IDRs in foreign and local currencies to "BB+" from "BB" with a "stable" outlook. Senior unsecured debt rating was also upgraded to "BB+" from "BB" in line with the IDRs. On 29 November 2019, Fitch revised the outlook on STLC's long-term IDRs in foreign and local currencies to "positive" from "stable", while the IDRs and senior unsecured debt rating were affirmed at "BB+".

The Group's cost of funding has been gradually declining over the period from 2017 to 30 September 2019 as a result of the above-mentioned credit rating upgrades and continued funding base diversification. Cost of funding decreased to 7.2 per cent as at 31 December 2018 from 8.1 per cent as at 31 December 2017. In 2019 the Group's cost of funding continued to decline and amounted to 6.9 per cent as at 30 September 2019.

#### *Financial Support from the Russian Federation*

Whilst the Group's general corporate aims include the generation of profit and a focus on commercial projects, as an agent of the Russian Federation, the Group continues to receive significant financial support from the Russian Federation. From 2009 to date, the Russian Federation contributed approximately RUB 103 billion into STLC's capital. In the first quarter of 2015, the Russian Federation made a contribution to STLC's charter capital in the amount of RUB 4,944 million. In the fourth quarter of 2015, the Russian Federation made a further contribution to STLC's charter capital in the amount of RUB 30,000 million. These funds were further paid to "Sukhoi Civil Aircraft" JSC as an advance payment under the Sukhoi Superjet 100 purchase contract.

On 15 March 2017, the Government of the Russian Federation injected RUB 1,978 million of equity into STLC as part of the Federal Programme for the development of the Russian transport system (2010-2020) which was the second tranche of an aggregate RUB 5,544 million federal budget investment to co-finance the construction of two new auto-railway ferries at the Vanino-Kholmsk line. The capital injection followed a series of equity investments from the Russian Government at the end of 2016 in the aggregate amount of RUB 12,413 million, including RUB 5,000 million to support regional aircraft leasing (RUB 4,000 million for the Sukhoi Superjet 100 and RUB 1,000 million for the LET L-410 aircraft), RUB 3,848 million to develop the operating lease of helicopters (Mi-8 and Ansat), and RUB 3,566 million which was the first tranche of the aforementioned federal budget investment to co-finance the construction of two new auto-railway ferries at the Vanino-Kholmsk line. In December 2017, STLC received a capital contribution of RUB 5,300 million, including RUB 4,300 million to purchase 31 helicopters and RUB 1,000 million to purchase five L-410 aircraft.

Under the Decree of the Government of the Russian Federation No. 1635 dated 25 December 2017 and in accordance with the Federal Law on the "Federal budget of the Russian Federation for 2017 and the projected period of 2018 and 2019" an additional capital injection in the charter capital of STLC in the amount of RUB 4,000 million was made in December 2017 aimed at the support of sales of IL-96-400M aircraft with an additional subsidy of RUB 9,800 million to be granted to STLC in 2018 as contemplated by the 2018 federal budget.

However, in 2018 the commencement of the IL-96-400M aircraft programme was postponed until 2020. In accordance with the Decree of the Government of the Russian Federation dated 23 August 2018, STLC diverted a total of RUB 4,000 million of equity to finance both the development of the helicopter programme (RUB 3,000 million) and the small regional aviation programme (RUB 1,000

million), whereas the budgetary subsidies in the amount of RUB 9,800 million were allocated for the acquisition of eight additional Sukhoi Superjet 100 aircraft under the Sukhoi Superjet 100 programme. The total amount of subsidies in 2018 reserved for STLC was RUB 20,700 million.

In December 2018, budgetary subsidies of RUB 10,900 million in aggregate were allocated to STLC, including RUB 5,000 million to develop the operating lease of helicopters (Mi-8 and Ansat), and RUB 5,900 million for the acquisition of 13 vessels (11 RSD59 project dry cargo vessels and two “Comet 120M” type high-speed passenger vessels), to be further leased onto national shipping companies. The latter programme commenced in 2019 and is being implemented within the sub-programme “Sea and River Transport” of the “Development of Russia’s Transport System” Federal Targeted Programme.

The federal budget of the Russian Federation for 2020 and the projected period of 2021 and 2022 also makes provisions for additional budgetary subsidies to STLC of RUB 13.8 billion aimed at supporting the sales of IL-96-400M aircraft in 2020 and RUB 5 billion for the purchase and further lease of domestically built vessels in 2021.

#### *Credit facilities*

The Group also relies on credit facilities to fund its operations and has established strong relationships with major local and international financial institutions for this purpose. As at 30 September 2019, RUB 246,944 million was due to credit and other financial institutions in respect of bank loans and other borrowings provided both for leasing operations and general purposes (as compared to RUB 193,209 million as at 31 December 2018 and RUB 87,726 million as at 31 December 2017). Approximately 15.4 per cent of total loans outstanding as at 30 September 2019 were granted by Alfa-Bank (the relevant facilities being nominated in RUB), with the remaining RUB loans granted by Gazprombank, VTB, Moscow Credit Bank, Otkritie, Rosbank, Banca Intesa, Zapsibkombank and UniCredit Bank. Approximately 14.4 per cent of total loans outstanding as at 30 September 2019 were granted by PK AirFinance S.À.R.L. (the relevant facilities being denominated in USD) with the remaining USD loans granted by the Russian Regional Development Bank, Novikombank, International Investment Bank, Eurasian Development Bank and the International Bank for Economic Co-operation. The proportion of the Group’s total debt funding (sum of loans received, lease liabilities and bonds issued) represented by bank loans and other borrowings amounted to approximately 47 per cent as at 30 September 2019, compared to total debt funding (sum of loans received, finance lease liabilities and bonds issued) of 46 per cent as at 31 December 2018 and 33 per cent as at 31 December 2017.

On 29 March 2017, ICBC and the Russian Regional Development Bank (part of Rosneft group) joined the syndicated loan facility agreement arranged by Gazprombank as lenders with commitments of RUB 1.9 billion and RUB 5 billion, respectively. Furthermore, on 11 May 2017, CBM, Banca Intesa and the Bank of China joined this syndicated loan facility agreement as lenders with commitments of RUB 5.4 billion, RUB 1.35 billion and RUB 1.35 billion, respectively.

On 19 December 2017, the Group entered into a financing agreement of RUB 4,328 million with the Far East Development Fund, a subsidiary of the State Corporation “Bank for Development and Foreign Economic Affairs (Vnesheconombank)”, for the purposes of financing the construction of two new auto-railway ferries at the Vanino-Kholmsk line.

On 21 December 2017, the Group and Gazprombank signed an amendment agreement to the syndicated loan facility agreement dated 13 December 2016 which extended the loan facility amount to up to RUB 43.1 billion from RUB 36 billion for the purposes of financing the acquisition of 36 Sukhoi Superjet 100 aircraft (an increase from 32 Sukhoi Superjet 100 aircraft).

On 19 September 2018, the Group and the International Bank for Economic Co-operation signed a loan agreement for USD 22.7 million with a five-year tenor for the purposes of refinancing costs under a supply contract with ThyssenKrupp AG. On the same day, the Group and Rosbank (a member of the Société Générale Group) entered into a loan agreement for RUB 3.0 billion with a seven-year tenor for general corporate purposes. In November 2018, GTLKE concluded a USD 340 million refinancing debt facility secured by a portfolio of 14 aircraft. The portfolio includes five A321-200 aircraft, six B737-800 aircraft and three A319 aircraft leased to Aeroflot and a number of other clients. PK AirFinance, a GECAS company, was the mandated lead arranger of the transaction and provided the financing together with Credit Agricole CIB acting as co-arranger of the loans secured by the Aeroflot aircraft.

On 13 February 2019, the Group extended a nine-year USD 69 million loan with the Black Sea Trade and Development Bank to finance the construction of the Lavna Coal Transshipment Terminal at the port of Murmansk.

On 6 March 2019, the Group and Rosbank entered into another loan agreement for RUB 3.0 billion with a seven-year tenor for general corporate purposes.

In March 2019, the Group obtained a USD 182.7 million facility from a major Chinese lessor in order to refinance five Airbus A320-214 aircraft on lease to PJSC “Aeroflot” which was structured as a sale and finance lease-back transaction.

On 3 April 2019, the Group and Moscow Credit Bank entered into a loan agreement for RUB 6.3 billion with a seven-year tenor for the purpose of financing the purchase of helicopters (Mi-8 and Ansat) for lease purposes.

On 12 April 2019, the Group and Gazprombank entered into a loan agreement for RUB 3.8 billion with a seven-year tenor for general corporate purposes.

On 25 April 2019, the Group and Bank Intesa (Russia) entered into a revolving facility agreement for RUB 1.0 billion with a three-year tenor for general corporate purposes.

On 22 May 2019, the Group and China Construction Bank (Russia) Limited entered into an unsecured loan agreement for USD 17 million with a three-year tenor for general corporate purposes.

On 30 May 2019, GTLKE and PK AirFinance entered into a USD 265.2 million refinancing debt facility secured by a portfolio of three B777-300ER aircraft leased to Aeroflot. The loan facility was underwritten by PK AirFinance, DVB Bank SE, Credit Agricole CIB, the Korea Development Bank and NEC Capital Solutions Limited.

On 25 June 2019, the Group and Otkritie Bank entered into a number of loan agreements for the total amount of RUB 11.1 billion with a seven-year tenor for general corporate purposes.

On 16 July 2019, the Group and Promsvyazbank entered into a number of loan agreements for the total amount RUB 1.7 billion with a seven-year tenor for general corporate purposes. On 16 July 2019, the Group and Promsvyazbank also entered into a loan agreement for RUB 5.4 billion with a seven-year tenor for the purchase of 11 vessels (RSD59 project dry cargo vessels), to be further leased to national shipping companies.

On 31 July 2019, the Group and VTB Bank entered into a loan agreement for RUB 10 billion with a seven-year tenor for the purpose of financing the purchase of helicopters (Mi-8 and Ansat) for lease purposes.

### *Finance lease agreements*

Assets acquired under finance lease agreements are further leased out either under operating or finance leases. The Group uses finance leases as a funding source for aircraft purchases. During the period 2013 to 30 September 2019, the Group initially used this funding source for five Airbus A321 and Boeing 777 aircraft, further transferred to PJSC “Aeroflot”.

In 2016, the Group entered into an arrangement with CMBFL with regard to financing seven new Airbus A320-214 aircraft to be further leased out to PJSC “Aeroflot” with total value of the assets to be purchased of USD 323 million.

### *Bond issues*

Since 2013, the Group has been issuing documentary interest bearing non-convertible bonds in the domestic market. In August 2016, the Group registered a multi-currency perpetual RUB 151 billion Exchange Bond Programme at the Moscow Exchange. As at 30 September 2019, RUB 154,668 million in aggregate principal amount of bonds (including bonds held by the companies of the Group) were outstanding, as compared to RUB 137,909 million as at 31 December 2018 and RUB 99,863 million as at 31 December 2017.

In July 2016, the Group placed its debut Regulation S USD 500 million Eurobond due 2021 with a coupon rate of 5.95 per cent per annum. In May 2017, the Group placed its second Regulation S USD 500 million Eurobond due 2024 with a coupon rate of 5.125 per cent per annum.

On 24 August 2017, STLC placed amortising USD 170 million local bonds due 2024 with a coupon rate of 4.90 per cent. On 20 September 2017, STLC placed amortising RUB 20,000 million local bonds due 2032, with a floating coupon rate linked to the CBR’s key interest rate. On 19 January 2018, a floating rate 15-year RUB 10,000 million exchange bond issue with a five-year put option was placed at the Moscow Exchange under STLC’s Exchange Bond Programme at the coupon rate equal to the CBR’s key interest rate plus 75 bps until the put option date. On 6 February 2018, a floating rate 15-year RUB 10,000 million exchange bond issue with a five-year put option was placed at the Moscow Exchange under STLC’s Exchange Bond Programme. The coupon for the first two interest periods was fixed at 8.5 per cent per annum. The coupon rate for the subsequent interest periods until the put option date is equal to the CBR’s key interest rate plus 65 bps.

On 6 April 2018, a 15-year RUB 10,000 million exchange bond issue with a 6.5-year put option was placed at the Moscow Exchange under STLC’s Exchange Bond Programme. The coupon was fixed at 7.35 per cent per annum until the put option date. On 8 June 2018, a floating rate 15-year RUB 10,000 million exchange bond issue with a four-year put option was placed at the Moscow Exchange under STLC’s Exchange Bond Programme. The coupon for the first two interest periods was fixed at 8 per cent per annum. The coupon rate for the subsequent interest periods until the put option date is equal to the CBR’s key interest rate plus 65 bps. On 22 June 2018, STLC placed amortising USD 150 million local bonds due 2023 with a coupon rate of 5.95 per cent. On 23 November 2018, a 15-year RUB 5,000 million exchange bond issue with a three-year put option under STLC’s Exchange Bond Programme was placed at the Moscow Exchange. The coupon was fixed at 9.9 per cent per annum.

On 8 February 2019, a 15-year RUB 10,000 million exchange bond issue with a three-year put option was placed at the Moscow Exchange under STLC’s Exchange Bond Programme. The coupon for the first 12 interest periods until the put option date was fixed at 9.5 per cent per annum.

On 17 April 2019, the Group issued USD 500 million Reg S Eurobonds due 2025 with a coupon rate of 5.95 per cent per annum (the **2025 Notes**).

On 13 June 2019, a 15-year RUB 10,000 million exchange bond issue with a 3.5-year put option was placed at the Moscow Exchange under STLC's Exchange Bond Programme. The coupon for the first 12 interest periods until the put option date was fixed at 8.85 per cent per annum.

On 5 September 2019, the Moscow Exchange approved and registered amendments to STLC's multi-currency Exchange Bond Programme to extend the amount of the programme from RUB 151 billion to RUB 255.77 billion.

### **Recent Developments**

On 2 October 2019, the Group issued USD 550 million Reg S Eurobonds due 2026 with a coupon rate of 4.949 per cent per annum (the **2026 Notes**).

On 29 October 2019, a six-year amortising exchange bond issue in the amount of RUB 25,000 million was placed at the Moscow Exchange under STLC's Exchange Bond Programme. The coupon was fixed at 7.69 per cent per annum.

On 14 November 2019, the Group and Bank GPB entered into a number of loan agreements for the total amount of RUB 2.65 billion to finance purchase and leases of railroad rolling stock.

On 22 November 2019, the Group and Otkritie Bank entered into a loan agreement for RUB 6.38 billion with a seven-year tenor to finance purchase and leases of railroad rolling stock.

On 29 November 2019, Fitch revised the outlook on STLC's long-term IDRs in foreign and local currencies to "positive" from "stable", while the IDRs and senior unsecured debt rating were affirmed at "BB+".

On 20 December 2019, the Group and VTB entered into a loan agreement for RUB 10 billion with a seven-year tenor to finance purchase and leases of railroad rolling stock.

On 30 December 2019, the Group and Bank GPB International S.A. (Luxembourg) entered into an unsecured loan facility agreement for EUR 45 million with a three-year tenor for general corporate purposes.

In December 2019, STLC received budget funding in the amount of RUB 13.55 billion to finance various state programmes, including budgetary subsidies of RUB 4.9 billion for the further development of existing Sukhoi Superjet 100 aircraft, small regional aviation and national helicopter programmes, RUB 5.55 billion for the acquisition and further lease of domestically built civil vessels, and a direct capital injection of RUB 3 billion for the financing of leases under the federal project "Digital technologies" as part of the national programme "Digital Economy of the Russian Federation".

On 6 December 2019, STLC acquired a 78.19 per cent stake in the Joint-stock commercial bank "National Reserve Bank" joint-stock company, incorporated under the laws of the Russian Federation (**National Reserve Bank**). The acquisition was driven by STLC's intention to take an active role in the national project "Digital Economy of the Russian Federation" and to use the banking platform to finance non-commercial leasing of domestic technologies, platform solutions and digital equipment aimed at the digital transformation of Russia's transport sector.

## Alternative Performance Measures

Prospective investors should read the following information in conjunction with the Group's financial results for the years ended 31 December 2017 and 2018 and the nine-month period ended 30 September 2019 and the section of this Prospectus entitled "*Presentation of Financial and Other Information – Alternative Performance Measures*".

<b>KEY RATIOS</b>	<b>2017</b>	<b>2018</b>	<b>9M 2019<sup>(1)</sup></b>
<i>Total equity / Total assets</i>	19.2%	16.6%	14.1%
<i>Asset yield</i>	10.7%	10.5%	9.7%
<i>Cost of funding</i>	8.1%	7.2%	6.9%
<i>Administrative expenses / Total assets</i>	0.7%	0.6%	0.5%

**Note:**

<sup>(1)</sup> Calculation has been made on annualised basis: for the nine-month period ended 30 September 2019 the relevant turnover figures derived from the 2019 Interim Financial Statements have been multiplied by 1.33.

## INDUSTRY OVERVIEW

The Russian leasing market is still relatively young, having emerged in the late 1990s. It grew steadily between 2001 and 2011, on average by approximately 60 per cent per annum, in terms of the aggregate value of lease portfolios and is now the sixth largest leasing market in Europe by new business volume according to the Leaseurope Annual Survey for 2018. However, during the period from 2012 to 2015, largely as a result of the global economic slowdown and the unstable economic situation, the previously rapid development of the Russian leasing market slowed. In 2016 the leasing sector demonstrated signs of recovery as a result of the stabilisation of the Russian economy and improvement of bank financing terms. As at the date of this Prospectus, the Russian leasing market has been growing steadily for the third consecutive year. According to Expert RA, in 2017 the total value of the Russian leasing portfolio reached RUB 3,450 billion (compared to RUB 3,200 billion in 2016) and the volume of new business (in terms of value of property) in 2017 grew, totalling RUB 1,095 billion, as compared to RUB 742 billion for 2016, an increase of 47.5 per cent. The market growth was primarily driven by the expansion of the automobile leasing industry and the growth in the railway leasing segment which was driven by increased demand for railway rolling stock due to the increase in export freight traffic. The volume of lease payments increased to RUB 870 billion in 2017, as compared to RUB 790 billion in 2016, an increase of 10.1 per cent.

According to Expert RA, in 2018 the volume of new business in the Russian leasing portfolio totalled RUB 1,310 billion, an increase of 19.6 per cent as compared to 2017. According to Expert RA, the aggregate value of the lease portfolio increased by 24.6 per cent year-on-year, reaching a record-breaking RUB 4,300 billion at the end of 2018. This market growth was primarily driven by increased activity of the state owned leasing companies with a primary focus on transactions in the leasing of transportation assets segments, supported by state programmes. As of 31 December 2018, the market share of STLC, being the largest Russian leasing company, increased to 21.5 per cent of the aggregate value of the lease portfolio, as compared to 15.5 per cent as of 31 December 2017, demonstrating a more than 50 per cent increase in new business volume year-on-year.

In the first nine months of 2019 the volume of new business amounted to RUB 1,031 billion, an increase of 2.1 per cent year-on-year. This was the lowest growth rate for the past three years, which was driven by decreased activity in the railroad and aviation segments by large state-controlled leasing companies compared to the similar period of 2018. The growth of the leasing market in the first nine months of 2019 was supported by transactions in the real estate, maritime, and motor vehicles segments. According to Expert RA, the aggregate value of the lease portfolio increased by 11.6 per cent year-on-year and reached RUB 4,576 billion, as of 30 September 2019. The market share of STLC, which retained its position as the largest Russian leasing company, amounted to 22.5 per cent of the aggregate value of the lease portfolio, as of 30 September 2019.

### Performance of the Russian leasing sector

Indicator	2012	2013	2014	2015	2016	2017	2018	9m 2018	9m 2019
New business volume, billion RUB	770	783	680	545	742	1,095	1,310	1,010	1,031
Growth rate, per cent (Y-o-Y)	3.9	1.7	-13.2	-19.9	36.1	47.5	19.6	42.3	2.1
Amount of new leasing agreements, billion RUB	1,320	1,300	1,000	830	1,150	1,620	2,100	1,650	1,603
Growth rate, per cent (Y-o-Y)	4	-1.5	-23.1	-17.0	38.6	40.9	29.6	44.8	2.8

### Performance of the Russian leasing sector

Indicator	2012	2013	2014	2015	2016	2017	2018	9m	9m
								2018	2019
Amount of lease payments, billion RUB	560	650	690	750	790	870	1,050	700	797
Financed amount, billion RUB	640	780	660	590	740	950	1,300	830	881
Aggregate value of lease portfolio of leasing companies, billion RUB	2,530	2,900	3,200	3,100	3,200	3,450	4,300	4,100	4,576
Growth rate, per cent (Y-o-Y)	36	14.6	10.3	-3.1	3.2	7.8	24.6	24.3	11.6
Nominal Russian GDP, billion RUB (in real terms; source: Rosstat)	68,164	73,134	79,200	83,233	86,044	92,082	103,627	72,921	73,723
Share of new business volume in GDP, per cent	1.1	1.1	0.9	0.7	0.9	1.2	1.3	1.4	1.4

Source: Expert RA

The development of the Russian leasing market since 2001 has been based largely on the level of demand for renewal of industrial machinery and motor transport (including railway rolling stock), much of which dates from the Soviet era. Increasingly, Russian companies have become more active globally, with, for example, companies such as Aeroflot, in the aviation sector, investing heavily in new aircraft (much of which is lease financed) in order to compete effectively for business on the more lucrative international routes. Between 2005 and 2010, the Russian leasing market expanded at a compound annual growth rate of 27.0 per cent, according to Expert RA, a faster rate of growth than the Russian economy as a whole and faster than the Russian banking sector. Between 2010 and 2016, the Russian leasing market expanded at a compound annual growth rate of 20.2 per cent.

In 2016 the share of the leasing business in Russia's GDP neared 1 per cent (which is close to levels before the financial crises of 2007-2008) for the first time since 2013 and further increased to 1.2 per cent in 2017. In 2018, the share of the leasing segment in Russia's GDP reached a record-breaking 1.3 per cent.

Most of the largest market players in the leasing business in the Russian Federation are major Russian financial institutions with state ownership and companies owned by large or medium-sized banks and most of the leasing business is conducted by using finance leasing rather than operating leasing. However, the share of operating leasing has been gradually increasing and made up 15 per cent of the leasing market in 2016 as compared to 12 per cent in 2015, according to Expert RA. In 2017, new business volume in the operating leasing segment increased significantly and reached RUB 199 billion, which represented 21 per cent of the total volume of new business for the year ended 31 December 2017. This growth in the operating leasing segment was driven by increases in the operating leasing of aircraft and railway rolling stock. In 2018, the share of operating leasing declined to less than 10 per cent due to the decrease of new transactions for aircraft and railway rolling stock in this segment.

### Leasing sectors

According to Expert RA, in 2018, the leasing of transportation asset sectors accounted for 77.2 per cent of the volume of new business of Russian leasing companies (as compared to 76 per cent for 2017) with the biggest increase in the maritime (133 per cent year-on-year) and in the railway rolling stock (120 per cent year-on-year) segments. This was due to the restrictions introduced by the Russian



Government in 2016 on the operation of old wagons with a prolonged service life that increased write-offs of old wagons, as well as the excessive demand for railway rolling stock due to the increase in export freight traffic during 2017 and 2018. The share of new business in rolling stock has increased to 25.9 per cent for the year ended 31 December 2018 (as compared to 20.8 per cent for the year ended 31 December 2017), while new business in the aircraft segment dropped to 12.6 per cent for 2018 (as compared to 18.2 per cent for 2017). The volume of new business in maritime leasing demonstrated an increase to 4.1 per cent for of the year ended 31 December 2018, as compared to 2.1 per cent for the year ended 31 December 2017.

### *Railway Rolling Stock*

The Russian rail transport leasing market is concentrated and the main lessors are fully or partly state-owned, including Russian Railways and its subsidiaries. As of 31 December 2018, the railway rolling stock leasing portfolio represented 41.0 per cent of the Russian leasing market, as compared to 39.0 per cent as of 31 December 2017, according to Expert RA. In 2018, the rolling stock segment demonstrated an increase of 49 per cent year-on-year and constituted 26 per cent of the total volume of new business, making this sector a key driver of Russian leasing market growth in 2018. Fast growth in the rolling stock segment was driven by the retirement and write-offs of old wagons, which increased demand for new rolling stock, as well as recovery and growth in rental rates and excessive demand for railway rolling stock due to increase in export freight traffic. State-owned companies including STLC, Sberbank Leasing and VTB Leasing were responsible for 66 per cent of the new business volume in the railway rolling stock sector in 2018. According to Expert RA, the share of railway rolling stock leasing in the total new business volume for the nine-month period ended 30 September 2019 amounted to 17.3 per cent., as compared to 30.8 per cent for the relevant period of 2018.

### *Aircraft*

The growth in the aircraft leasing sector has been particularly driven by the urgent need to replace old and outdated aircraft across the Russian Federation and the CIS with foreign-made aircraft, in particular, for operating international routes. Aircraft leasing transactions in 2018 amounted to approximately 21 per cent of the Russian leasing market, as compared to 20 per cent in 2017, according to Expert RA. For the year ended 31 December 2018, the volume of new business in aircraft leasing dropped by 17.1 per cent as compared to a 31 per cent increase in 2017 and accounted for 12.6 per cent of the total volume of new business for the year ended 31 December 2018 (18.2 per cent for the year ended 31 December 2017). The decrease of new business volume in this sector was mainly driven by the lack of large transactions in the fourth quarter of 2018. The share of aircraft leasing in the total new business volume demonstrated a further decrease in the first nine months of 2019 and dropped to 4.7 per cent as at 30 September 2019, as compared to 13.4 per cent as at 30 September 2018, according to Expert RA.

### *Maritime*

Significant companies in the Russian maritime and shipping leasing market that make use of finance leasing include Sovcomflot, Volgaflot, and others. As of 31 December 2018, maritime and shipping leasing transactions represented approximately 7.0 per cent of the Russian leasing market, as compared to 4.9 per cent as of 31 December 2017, according to Expert RA. The increase in the maritime segment was driven by the significant increase in the volume of new business in this segment by STLC (with its share exceeding 74 per cent). For the year ended 31 December 2018 the volume of new business in maritime leasing increased by 133 per cent year-on-year and accounted for 4.1 per cent of the total volume of new business in 2018, as compared to 2.1 per cent in 2017. Activity in the maritime leasing segment continued in the first nine months of 2019. The share of maritime leasing in the total new business volume for the nine-month period ended 30 September 2019 reached

9.6 per cent, a more than two-fold increase as compared to 4.3 per cent as at 30 September 2018, according to Expert RA.

### *Motor vehicles and trucks*

The motor vehicle and truck sector was an important driver of the Russian leasing market recovery in 2016 and 2017. High liquidity of the underlying assets allowed for stable development in spite of the economic slowdown and the stabilisation of the Russian economy is likely to further promote the development of this type of leasing. Another positive factor is the State automotive leasing subsidising programme (the **Programme**) which was initially adopted by the Russian Government in 2015 and then extended for the years 2016 and 2017. The Programme provides federal budget funding to Russian leasing companies engaged in automotive leasing and participating in the Programme. According to Expert RA, the Programme increased demand for commercial motor vehicles manufactured in Russia, including those manufactured under foreign brands. This contributed to growth in new business volumes in the motor vehicle sector of 18 per cent and 14 per cent in 2015 and 2016, respectively. In addition, the Expert RA report noted that in this sector, light commercial vehicles (**LCV**) experienced the most significant increase in demand.

On-going state support is expected to promote steady growth in the segment thus making it more attractive for the market participants. In 2018 new business volume in the auto leasing segment (PC, LCV) increased by 27.8 per cent year-on-year and accounted for 15.9 per cent of the total new business volume for the year ended 31 December 2018 (14.9 per cent for the year ended 31 December 2017), according to Expert RA methodology. At the same time, new business volume in the trucks segment increased by 11.9 per cent year-on-year and represented 18.7 per cent of total new business volume in 2018 (20 per cent in 2017). The motor vehicles and truck segment demonstrated a 19 per cent growth in 2018, despite a decrease in the volume of state subsidies from RUB 14 billion in 2017 to RUB 8 billion in 2018. The growth was also supported by a dramatic increase in car sharing companies' fleets, demonstrating a five-fold increase in 2018, according to Expert RA. In 2019 motor vehicles and trucks leasing kept growing with auto leasing (PC, LCV) and trucks segments having a share in the new business volume in the first nine months of 2019 of 17.4 and 20.5 per cent respectively, according to Expert RA.

### *Construction and Road Construction Equipment*

The equipment leasing sector largely comprises industrial or high-tech equipment leased to companies active in the energy, metal processing, petroleum production and processing and construction markets (though with the latter sector still depressed as a result of the global economic downturn, this market is currently less of a priority for Russian leasing companies generally). The volume of new equipment leasing transactions for the year ended 31 December 2018 amounted to approximately 3.5 per cent of the Russian leasing market, as compared to 4.5 per cent for the year ended 31 December 2017, according to Expert RA. In 2018, new business volume in the construction and road construction equipment segments increased by 24.4 per cent year-on-year and represented 7.5 per cent of total new business volume, as compared to 7.2 per cent in 2017. The share of this segment in new business volume for the first nine months of 2019 demonstrated an increase of 37.7 per cent year-on-year and reached 8.5 per cent as at 30 September 2019, as compared to 6.3 per cent as at 30 September 2018.

## **Market Participants and Competition**

### *Market Participants*

Leasing companies operating in the Russian market can be divided into the following major groups:

1. Companies established by banks. This group tends to operate across several leasing sectors and includes VEB-Leasing and other large market participants, such as Sberbank Leasing,

VTB Leasing, Gazprombank Leasing, Alfa Leasing, UniCredit Leasing, Raiffeisen-Leasing, and REGION-Leasing.

2. Companies established by equipment and transport suppliers. This group tends to target leasing opportunities in its specific sector, and includes SIEMENS Finance (power-generating, industry plant, medical and other special equipment), Volkswagen Group Finanz (motor vehicles and trucks) and KAMAZ-Leasing (trucks) as well as other companies operating in the motor vehicles and truck leasing sectors.
3. Independent universal leasing companies. This group includes major players such as Transfin-M (primarily railway rolling stock) and Baltic Leasing (motor vehicles and trucks, power-generating equipment, construction, road construction and other special equipment), but is mostly represented by small regional companies, operating as leasing agents for banks and larger lessors, whose total leasing transactions do not exceed USD 1 million.
4. Independent retail leasing companies. This group's importance to the leasing industry has been increasing over recent years as certain sectors showing significant growth ratios typically comprise retail transactions, which significantly contributes to the overall leasing market recovery. The most significant retail leasing companies operating in this sector include Europlan, CARCADE Leasing and Major Leasing. This allows retail companies to become growth leaders and compete with universal and state-owned market players in certain segments: according to Expert RA, Europlan holds the leading positions (in terms of new business volume) ranking first in the motor vehicles segment and second in the trucks segment, as of 30 September 2019, outpacing state-owned Sberbank Leasing, VEB-Leasing and VTB Leasing which also operate in the same segments. This group also includes companies that tend to target leasing opportunities in specific sectors, primarily dealing with a specific type of equipment and/or connected to a specific vendor and acting as its financial services subdivision.
5. State-sponsored or controlled sector-specific leasing companies. These are leasing companies established by the Russian Government to assist with the reorganisation of certain strategic sectors of the economy and the development of small businesses across the Russian regions, and include Rosagroleasing (agriculture), Ilyushin Finance (aviation), Rosdorleasing (road construction), MASHPROM-LEASING (ex-Goznak-leasing) (including aviation, shipping, construction and other equipment) and STLC.

Among these major groups, state leasing companies are dominating the market with their share in terms of volume of new leasing agreements exceeding 50 per cent since 2015. As of 31 December 2018, the market share of state leasing companies reached 65 per cent based on the size of lease portfolio and is expected to remain at this level by the end of 2019, according to Expert RA.

### *Competition*

The Russian leasing market is increasingly competitive, with many new market entrants each year. This increased competition has led to qualitative changes in the characteristics of leasing transactions, increased sophistication in deal structuring and longer maturities, as well as improved costs to lessees. According to Expert RA, as at 31 December 2018, more than 120 leasing companies provided leasing services in Russia. As at 30 September 2019, 19 leasing companies had lease portfolios exceeding RUB 20 billion. In addition, Russian subsidiaries of major foreign financial institutions have started to provide such services, though direct competition in the Russian finance leasing industry from foreign leasing companies has been limited to date.

Despite the number of Russian leasing companies, lessees have tended to prefer companies that offer the lowest rates and the widest range of additional services, which has led to a move away from

smaller lessors to market leaders, such as STLC, Sberbank Leasing, VTB Leasing, Europlan and Alfa Leasing. According to Expert RA, for the year ended 31 December 2018, these companies ranked first, second, third, fourth and fifth, respectively, by volume of new business transacted, and first, second, third, eighth and seventh, respectively, by aggregate lease portfolio value in the Russian leasing market. The top 10 leasing companies in the Russian market (including the Group) had a combined market share of 71 per cent in terms of new business volume for the year ended 31 December 2018, according to Expert RA (as compared to 64 per cent for year ended 31 December 2017). The market share of the top three players (including the Group) increased from 34 per cent as of 31 December 2017 to 44 per cent as of 31 December 2018. In 2018, the Group's share of the Russian leasing market was approximately 21.5 per cent (as compared to 15.5 per cent in 2017), Sberbank Leasing's share was approximately 14.2 per cent (as compared to 11.7 per cent in 2017), VTB Leasing's share was approximately 13.4 per cent (as compared to 11.8 per cent in 2017), and VEB-Leasing's share was approximately 8.7 per cent (as compared to 10.2 per cent in 2017) in each case by size of lease portfolio, according to Expert RA.

According to Expert RA, the top three leasing companies in the Russian market (including the Group) had a combined market share of 37 per cent in terms of new business volume for the nine-month period ended 30 September 2019 as compared to 46 per cent for the nine-month period ended 30 September 2018. According to Expert RA, as of 30 September 2019, Sberbank, STLC, VTB Leasing, Europlan and VEB Leasing ranked first, second, third, fourth and fifth, respectively, by volume of new business transacted, and second, first, third, seventh and fourth, respectively, by aggregate lease portfolio value in the Russian leasing market. The Group remained the largest leasing company in Russia by the size of lease portfolio as at 30 September 2019 with its lease portfolio exceeding RUB 1,029 billion (a market share of approximately 22.5 per cent), according to Expert RA.

## **Russian Finance Leasing Regulation**

### *General*

The general regulatory framework for all finance leasing operations in the Russian Federation is set out in Chapter 34 of the Civil Code of the Russian Federation (the **Civil Code**). Under §6 of Chapter 34 (Articles 665 to 670), a finance lease is distinguished from other leases as a transaction involving three parties whereby a lessor undertakes to purchase certain property identified by the lessee from a seller and to make this property available for the lessee's temporary possession and commercial use in exchange for lease payments to the lessor. In addition to the general provisions of the Civil Code, finance lease transactions are more comprehensively regulated by Federal Law No. 164-FZ "On Finance Leasing" dated 29 October 1998, as amended (the **Finance Leasing Law**). To the extent not covered by the specific regulations contained in §6 of Chapter 34 of the Civil Code and the Finance Leasing Law, the general provisions of Chapter 34 of the Civil Code governing all types of leases in the Russian Federation apply.

Unless a finance leasing contract between the lessor and lessee provides otherwise, it is the lessee who selects the supplier of the leased asset. In this case, the lessor is not liable to the lessee for the supplier's performance under the supply agreement. However, if the supplier breaches its obligations under the supply agreement, the lessor and the lessee will be joint and several creditors of the seller. If the lessor selects the supplier, the lessor must notify the supplier that the relevant asset is intended for leasing to a specific person and the supplier and the lessor will be liable to the lessee for the supplier's non-compliance with the terms of the supply agreement.

The property leased under the finance leasing contract must be clearly determined by the parties, otherwise the contract is considered not concluded. The property subject to a finance lease transaction may include any non-consumable tangible property, other than land plots, other natural objects and certain other restricted types of property. Title to such property may or may not transfer to the lessee at the end of the lease term. The lessor and the lessee may also agree that title transfers prior to the

expiration of the finance lease. A finance lease may also be structured as a sale and lease-back transaction where the lessee acts as the seller.

Upon transfer of the leased property by the lessor to the lessee, the latter becomes responsible for maintaining the property and bears all risks of loss and damage of the property unless otherwise provided by the leasing agreement.

The Finance Leasing Law provides for certain additional protections to the lessor in the event of the lessee's default. Upon a default, lessors under other types of leases, including secured lessors, are not entitled to take possession of pledged property and are only entitled to the proceeds from a public sale of such property. By comparison, the lessor under a finance lease agreement retains the title to the leased property and has the right to reclaim such property from the defaulting lessee. Furthermore, the leased property is immune from claims of third parties with respect to the lessee's obligations.

In addition, if the lessee misses more than two consecutive lease payments, the lessor has the statutory right to attach the lessee's bank account and have funds equal to the amount of any overdue lease payments withdrawn from such bank account without the lessee's consent.

The lessee under a finance lease agreement may sublease the property received from the lessor subject to the lessor's written consent. If leased property is subleased, the lessee remains liable to the lessor under the original lease, while the lessee's right of claim against the seller passes to the sub-lessee. Unlike in other types of leases, where the duty to make major repairs is borne by the lessor, all repairs of the property lease under a finance lease are the responsibility of the lessee unless the agreement specifically provides otherwise.

If a finance lease agreement contemplates a buy-out of the leased property by the lessee, the lease payments include the buy-out price. Unless the finance lease agreement provides otherwise, the parties to a finance lease agreement may periodically reconsider the amount of the lease payments. However, the Finance Leasing Law does not allow a change in the amount of lease payments more frequently than once per quarter.

The parties to a finance leasing contract may agree insurance of the leased property against any losses, damage or other risks. The parties may also agree insurance of business risk. In certain cases set forth by Russian law, the lessee must insure the leased property against risk of third party liability.

In 1998, the Russian Federation acceded to the UNIDROIT Convention on Finance Leasing dated 28 May 1988 (the **Convention**). The Convention applies to leases when (i) the lessor and the lessee have their places of business in two different countries and (ii) either those two countries (and the country in which the seller has its place of business) are parties to the Convention or both the finance lease agreement and the supply agreement are governed by the law of a country that is a party to the Convention. The Convention applies only to cross-border finance leasing of equipment, excluding equipment used primarily for personal purposes.

When the criteria above are met, the Convention applies to a finance lease agreement unless all of the parties to the transaction agree to exclude its application. If the Convention is applicable, the parties may nonetheless agree to derogate from any provisions of the Convention, with a number of exceptions. The Convention prohibits there being a provision in the agreement that would allow the lessor to recover substantially greater damages than those necessary to place the lessor in the position in which it would have been had the lessee fully performed its obligations. The Convention also prohibits the lessor from enforcing an acceleration clause for payment of future lease payments when the lessor has terminated the finance lease agreement. The Russian Federation, when acceding to the Convention, reserved the right to apply its own civil legislation to a lessor's duty to warrant the lessee's exclusive use of the leased property free from third party claims arising out of intentional or grossly negligent acts of the lessor.

There is no specific regulation relating to operating leases.

### *Taxation*

Some of the provisions of the Finance Leasing Law providing for preferential treatment of finance lease transactions are implemented in the Tax Code of the Russian Federation (the **Tax Code**).

One of the most significant advantages of finance leases from a taxation standpoint relates to the possibility of applying accelerated depreciation deduction from income tax. Under the Tax Code, a taxpayer can depreciate leased property for Russian income tax purposes at three times the standard rate of depreciation applicable to that type of property. This benefit is not available for leasing of objects with a short period of estimated useful life. This benefit is available to either the lessor or the lessee, depending on whose books the property is recorded on for accounting purposes. The lessor and the lessee, at their own discretion, may choose which of them will record the leased property on its balance sheet.

The lessee is generally entitled to deduct its lease payments when determining its income tax liability. If a finance lease specifies that the leased property should be recorded on the lessee's balance sheet, and the lessee therefore takes depreciation deductions on that equipment, the lessee tax deductions for its lease payment expenses must be reduced by the amount of depreciation deductions taken. In order for any expense (including leasing payment and depreciation) to be treated as deductible for profits tax purposes, certain general requirements established by the Tax Code should be met. In particular, the expense should be properly documented, be economically justified and incurred for income generating purposes.

### *Licensing and Registration*

Leasing companies were formerly subject to licensing in the Russian Federation under the Federal Law No. 158-FZ "On Licensing of Certain Types of Activity" dated 25 September 1998. In 2002, when the Federal Law No. 128-FZ "On Licensing of Certain Types of Activity" became effective, finance leasing was excluded from the list of licensed businesses in Russia, and any Russian or foreign company may engage in finance leasing in the Russian Federation unless restricted by such company's constitutive documents. In 2011, the new Federal law No. 99-FZ "On Licensing of Certain Types of Activity" was adopted and such federal law did not include any licensing required for the leasing companies in the Russian Federation.

From 1 October 2016, Russian lessors must submit information about each finance lease agreement to the Federal Register on the Facts of Activities of Legal Entities by publishing relevant information on the website ([www.fedresurs.ru](http://www.fedresurs.ru)), specifying each finance lease agreement's date and number, the term of a finance lease, the names of the lessor and the lessee with their identifiers (taxpayer's identification number and main state registration number (OGRN), if available) and the leased asset.

Title to, and transactions with, real estate and certain other types of property, such as aircraft, sea vessels, power and communications lines, are subject to state registration under Russian law. The lessor and the lessee may determine in the finance lease agreement the party in whose name the leased property will be registered. However, information on both the lessor as owner and the lessee shall be reflected in the registration documents. Upon termination of a leasing contract, the record on the lessee with the relevant register must be revoked. Title to movable property generally does not require registration and transactions, the subject of which is movable property, including finance leasing, are not subject to any registration requirements.

### *Reform of the Special Leasing Companies Activity*

In 2018 the Ministry of Finance of the Russian Federation and the CBR developed the Draft Special Leasing Companies Law. According to the Draft Special Leasing Companies Law, the following entities will be deemed to be “a special subject of leasing activity” (the **Special Leasing Companies**): (i) any leasing company receiving or seeking to receive state support instruments in their leasing activity; (ii) state-controlled leasing companies and their affiliates; (iii) banks; and (iv) any legal entity which is an affiliate of a credit institution with a participation of the CBR or the Deposit Insurance Agency. The key purpose of the Draft Special Leasing Companies Law is to make the activity of the Special Leasing Companies more transparent and to improve their financial, risk-management and corporate governance systems. In particular, the Draft Special Leasing Companies Law prescribes the implementation of the leasing entities register, where all Special Leasing Companies must be registered. The Draft Special Leasing Companies Law also sets a minimum amount for the Special Leasing Companies' capital. The Special Leasing Companies' financial statements will be subject to a mandatory audit requirement and filing to the CBR. In addition, Special Leasing Companies will have to join a self-regulatory organisation of leasing entities in accordance with Federal law No. 223-FZ “On Self-Regulatory Organisations on Capital Markets” dated 13 July 2015. On 22 January 2019 the Draft Special Leasing Companies Law successfully passed its first reading in the State Duma of the Federal Assembly of the Russian Federation, but it is still under discussion among large market participants. It is currently unclear whether it will be adopted at all and, if adopted, in which form. According to the current version of the Draft Special Leasing Companies Law, most provisions of the Draft Special Leasing Companies Law will come into effect within six months from the date of its adoption, while certain requirements will come into effect from 1 January 2021, according to the transition period provisions prescribed therein.

### *Prospective Reform of the Leasing Regulation*

In September 2018 the Ministry of Finance of the Russian Federation published a draft law on the amendments to the provisions of the Civil Code on leasing (the **Draft Law**). According to the Draft Law, the provisions on finance leasing will be extracted into a separate chapter in the Civil Code as a special type of financing. The Draft Law governs, in particular, the rights and obligations of the parties with respect to the leased property, procedure for transfer of title to the leased property at the end of the lease term, responsibility of the parties for a breach of the finance lease agreement and special remedies of the lessor in case of the lessee's default under the finance lease agreement. The Draft Law has not been submitted to the State Duma of the Federal Assembly of the Russian Federation and is still under public discussion among large market participants. As at the date of this Prospectus, it is unclear whether the Draft Law will be adopted at all and, if adopted, in which form.

## SANCTIONS

### **Armed conflict in Eastern Ukraine and the international reaction to Russia's actions in connection with Crimea**

Past significant civil unrest and political instability in Ukraine and the on-going armed conflict in Eastern Ukraine has affected relations between the Russian Federation and Ukraine. In March 2014, a referendum on the status of Crimea was held which resulted in a majority of votes in favour of seceding from Ukraine and joining the Russian Federation as a federal constituent entity. On 18 March 2014, Russia and Crimea signed an agreement on the accession of the Republic of Crimea to the Russian Federation. On 21 March 2014, the Russian parliament passed legislation extending the effect of Russian laws and operation of governmental authorities to the territory of Crimea. This has had in the past, and may continue to have in the future, an adverse effect on the Russian economy and demand for commodities. The events in Ukraine and Crimea have brought about a negative reaction from the EU, the United States and certain other countries (including Canada, Australia and Norway). A number of countries imposed various sanctions against Russia and refused to recognise the referendum in Crimea as legal.

The conflict in Ukraine is on-going and could continue or escalate. On 25 November 2018 Russia seized 24 men and three Ukrainian navy vessels near the Crimea region. The sailors are accused of illegally entering Russian waters (the **Kerch Strait Incident**). The sailors were ordered by the Moscow court to remain in pre-trial detention until April 2019. The United States and European Union have called on Russia to release the sailors. The Kerch Strait Incident has been reported to have increased tension between the EU and Russia and to have increased the possibility of the EU imposing new sanctions on Russia. In September 2019 there was an exchange of prisoners of war between Russia and Ukraine, including 24 Ukrainian sailors captured during the Kerch Strait Incident. In November 2019, Russia returned to Ukraine the Ukrainian navy vessels seized during the Kerch Strait Incident.

A significant escalation in hostilities between Ukraine and Russia would likely cause substantial economic disruption to both countries. There would also likely be calls from the West for a comprehensive sanctions regime that would seek to isolate Russia from the world economy. If no resolution of the current level of on-going civil insurrection in Eastern Ukraine is forthcoming and Russia is continued to be perceived as acting inimically, there may well be further strengthening and broadening of sanctions against Russian persons. For example, there have been proposals to cut off Russia from the international SWIFT payment system, which would disrupt ordinary banking services in Russia and any cross-border trade. The continued impact of these events and any continuing or escalating military action in Eastern Ukraine, public protests, unrest, political instability or further sanctions could have a further adverse effect on the Ukrainian and Russian economies.

In response to the perceived role of the Russian Federation in events in Ukraine and Crimea, the United States and the EU, as well as a number of other countries, have imposed sanctions on certain Russian and Ukrainian persons and entities.

### **OFAC sanctions**

Since March 2014, a number of former Ukrainian governmental officials, Russian governmental officials and individuals, Russian businessmen, Russian companies and banks, as well as several non-Russian companies holding assets in Russia have been designated as Specially Designated Nationals (**SDN**) by the OFAC.



As a result of these designations, it is unlawful for any U.S. person (meaning any U.S. citizen, permanent resident alien, entity organised under the laws of the United States or any jurisdiction within the United States (including foreign branches), or any person in the United States) to do business, directly or indirectly with an SDN or any entities owned directly or indirectly 50 per cent or more in the aggregate by one or more SDNs. In addition, all property and assets of SDNs in the United States or under the possession or control of a U.S. person are subject to blocking. This blocking also extends to any property that later comes into the United States or into the possession or control of a U.S. person, including any foreign branches of U.S. persons. Additional designations have occurred since 2014, with the most recent designations occurring in (i) December 2019 when the U.S. imposed sanctions on 17 individuals and 7 legal entities for alleged participation in or affiliation with a Russian-based cybercriminal organisation; and (ii) February 2020 when the U.S. imposed sanctions on one individual and one legal entity for allegedly operating in the oil sector of the Venezuelan economy.

On 2 August 2017, U.S. President Donald Trump signed into law the Countering America's Adversaries Through Sanctions Act (the **CAATS Act**), which authorises the imposition of additional sanctions with respect to Russia. Besides codifying the existing U.S. sanctions against Russia, the CAATS Act reduces the maximum permitted tenor of short-term U.S. debt provided to certain targets of sectoral sanctions, and it increases the restrictions on the U.S. supply of goods, services (except financial services), and technology to oil exploration and production projects in which certain Russian energy companies have significant interests. The CAATS Act also authorises the U.S. Treasury Secretary to identify state-owned entities operating in the railway or mining and metals sectors of the Russian economy, and to impose additional sectoral sanctions on such persons (though as of this date, no persons have been so identified and therefore no such additional sanctions have been imposed). It also provides for additional "secondary sanctions", which target the activities of non-U.S. persons.

Since the introduction of the CAATS Act, further sanctions have been implemented by the U.S. in response to, among other things, Russia's alleged involvement in the poisoning of former Russian intelligence officer Sergei Skripal and his daughter Yulia in Salisbury, UK, in March 2018 and an the Kerch Strait Incident in November 2018.

On 2 August 2019, the United States announced the imposition of additional sanctions on the Russian Federation under the Chemical and Biological Weapons Control and Warfare Elimination Act of 1991 (the **CBW Act**). The sanctions: (i) require the United States to oppose multilateral development bank assistance to the Russian Federation; (ii) prohibit U.S. banks from participating in the primary market for non-rouble denominated bonds issued by the Russian sovereign and lending non-rouble denominated funds to the Russian sovereign; and (iii) impose a licensing policy of a presumption of denial for applications for the export of items controlled for chemical and biological weapons-related reasons to Russia. The sanctions went into effect at the end of August 2019 and are to remain in force for at least twelve months. These three sanctions measures are imposed under the CBW Act pursuant to a previous U.S. determination that Russia had used chemical weapons in violation of international law or lethal chemical weapons against its own nationals. The United States previously imposed initial CBW Act sanctions on Russia in August 2018 in relation to the same determination.

In December 2019, the President of the U.S. signed into law the National Defense Authorization Act for Fiscal Year 2020 (**NDAA**), which envisages the imposition of sanctions on foreign persons engaged in the construction of the Nord Stream 2 and the TurkStream pipeline projects, which are being developed by Gazprom. The NDAA provides that the U.S. Government shall identify the vessels and foreign persons involved in the construction of the pipeline projects not later than within 60 days of the date of the enactment of the NDAA. Such persons could be subject to U.S. sanctions, such as blocking of property.

## **EU sanctions**

The Council of the EU has also introduced a list of persons that are subject to EU sanctions. The EU's sanctions generally have a similar effect to the U.S. sanctions and involve travel restrictions and the freezing of funds and economic resources of the designated persons located in the EU or controlled by EU persons, as well as export restrictions with respect to equipment and technology for Arctic, deep-water and shale oil projects, and the prohibition on provision of direct or indirect financing to the designated persons. The EU's sanctions are implemented in the member states of the EU (which, for these purposes, includes the UK), including Ireland.

In the course of 2017, 2018 and 2019, the European Council announced that sanctions against Russia will be extended, with the latest extension confirmed until: (i) 31 July 2020 with respect to sectoral sanctions; (ii) 23 June 2020 with respect to the import, trade and investment restrictions affecting Crimea/Sevastopol; and (iii) 6 March 2020 and 15 March 2020 with respect to individual asset freezes and travel restrictions.

## BUSINESS

### OVERVIEW

Public Joint Stock Company “State transport leasing company” (STLC), a company incorporated under the laws of the Russian Federation, is a leading Russian transportation and equipment leasing company with its head office in Moscow and three regional subdivisions in Omsk, St. Petersburg and Grozny. STLC’s registered office is at Office 100, Bld. 73, ul. Respubliki, Salekhard, Yamalo-Nenetsky Avtonomny Okrug, Russian Federation, 629008 and its telephone number is +7 34922 474-98 / +7 495 221-00-12. It is wholly owned by the Russian Federation and controlled by it through the Ministry of Transport of the Russian Federation. As of 4 February 2009, the Ministry of Transport of the Russian Federation was appointed to execute shareholder rights under Government Decree No. 93. The Ministry of Transport of the Russian Federation and the Ministry of Industry and Trade also have representation on the Board of Directors of STLC.

The Group provides commercial and non-commercial finance and operating leasing services (see “*The Group’s Business – Leasing operations of the Group – Finance Leasing – Non-commercial finance leases*” and “*The Group’s Business – Leasing operations of the Group – Finance Leasing – Commercial finance leases*” below) to both Russian and international enterprises. Its principal customers include PJSC “Aeroflot”, JSC “Yamal Airlines”, “Rossiya Airlines” JSC, JSC “Aurora Airlines”, CJSC “IrAero Airlines”, Yakutia Airlines, easyJet plc, Silk Way Airlines, JSC Azimuth Airlines, LCC “Severstal Aircompany”, SIA “Smartlynx Airlines” (Latvia), Alia-Royal Jordanian Airline PLC (Hashemite Kingdom of Jordan), GÜNEŞ EKSPRES HAVACILIK A.Ş. d/b/a SUN EXPRESS (Turkey) and SunExpress Deutschland GmbH (Germany) in aviation leasing; Modum-Trans, TGK, First Industrial Operator, Rail 1520 Service (United Wagon Company Group), SG-Trans and PJSC “Central exurban passenger company” in railway leasing; and BF Tanker, Pola Group and Havila Kystruten (Norway) in maritime leasing. Such leases are principally provided for the leasing of transportation assets in the aviation, maritime and rail sectors, as well as large and high-tech equipment in the transportation infrastructure sector. The Group is currently involved in implementing or developing nine key government programmes: (i) the development of operating leasing of Sukhoi Superjet 100 aircraft; (ii) regional programmes to improve energy efficiency in the transport sector; (iii) finance leasing of passenger rolling stock for local commuter services; (iv) a programme for the development of water transport leasing and ferry services; (v) a programme for the support of the national helicopter industry; (vi) a programme for the development of regional small aircraft; (vii) a programme for the development of the leasing of domestically built dry cargo ships and high-speed passenger vessels; (viii) a programme for the development and adoption of domestic technologies and digital platform solutions aimed at the digital transformation of the national transport industry; and (ix) a programme for the development and support of sales of IL-96-400M aircraft, which is expected to commence in 2020.

STLC established GTLK Europe Limited which was incorporated in Ireland in 2012 in order to facilitate aviation and maritime leasing. In September 2016, GTLK Europe Limited was re-registered pursuant to the Companies Act 2014, as amended (the **Companies Act**) as a “designated activity company limited by shares” (or “DAC limited by shares”) under the name GTLK Europe DAC and therefore has the status of a private company limited by shares registered under the Companies Act. The GTLKE Group accounts for 30 per cent of the Group’s total assets as at 30 September 2019 and accounts for 41 per cent of the Group’s revenues for the nine month period ended 30 September 2019. GTLKE’s main business is further described below (see “*GTLK Europe DAC – Principal Activities*”).

STLC, via GTLKE, established the Issuer which was incorporated in Ireland in January 2018 in order to provide debt financing for the business operations of STLC and GTLKE. The Issuer may engage in all activities necessary, customary, convenient or incidental to the foregoing. Since its incorporation,

the Issuer has not engaged in any material activities other than relating to the issue of the 2025 Notes, the 2026 Notes and the Notes. The Issuer is further described below (see “*The Issuer*”).

The Group is a key player in many of the leasing sectors in Russia in which it operates. For example, according to Expert RA, the Group was ranked as the largest leasing company by size of lease portfolio and the second largest by volume of new business transactions in the Russian Federation as at 30 September 2019. In addition, according to Expert RA, the Group retained its leading position in key sectors ranking as the largest leasing company in aviation transportation, railway and maritime segments by size of lease portfolio as at 30 September 2019.

As at 31 December 2018, the Group had RUB 521,496 million in total assets (as compared to RUB 340,585 million as at 31 December 2017); RUB 434,691 million in total liabilities (as compared to RUB 275,324 million as at 31 December 2017); RUB 86,805 million in total equity (as compared to RUB 65,261 million as at 31 December 2017); and an aggregate lease portfolio of RUB 403,317 million gross of impairment allowance (comprising net investment in leases in the amount of RUB 227,489 million and assets leased out under operating leases in the amount of RUB 175,828 million) (as compared to RUB 271,437 million gross of impairment allowance (comprising net investment in leases in the amount of RUB 137,066 million and assets leased out under operating leases in the amount of RUB 134,371 million) as at 31 December 2017). As at 31 December 2018, the Group’s ratio of total equity to total assets was 16.6 per cent (compared to 19.2 per cent as at 31 December 2017).

As at 30 September 2019, the Group had RUB 628,986 million in total assets; RUB 540,432 million in total liabilities; RUB 88,554 million in total equity and an aggregate lease portfolio of RUB 500,013 million gross of impairment allowance (composed of net investment in leases gross of impairment allowance in the amount of RUB 298,322 million and assets leased out under operating leases in the amount of RUB 201,691 million). As at 30 September 2019, the Group’s ratio of total equity to total assets was 14.1 per cent.

For the year ended 31 December 2018, the Group generated total interest income, being the sum of finance lease interest income and other interest income, of RUB 22,966 million (as compared to RUB 14,689 million for the year ended 31 December 2017); interest expense of RUB 24,511 million (as compared to RUB 17,502 million for the year ended 31 December 2017); non-interest income, being income from operating leases and other operating income and recovery of provisions, of RUB 24,585 million (as compared to RUB 16,161 million for year ended 31 December 2017); and operating lease expenses of RUB 2,471 million (as compared to RUB 2,087 million for the year ended 31 December 2017). Profit for the year 2018 amounted to RUB 607 million (as compared to losses of RUB 3,835 million for the year ended 31 December 2017). The loss recorded for 2017 was mainly the result of a one-off impairment provision for the Group’s obligations relating to an embedded RUB/USD exchange rate clause in a loan agreement entered into by the Group and was not caused by any operational decline or deterioration in macro-economic conditions or asset or portfolio quality.

For the nine-month period ended 30 September 2019, the Group generated total interest income, being the sum of finance lease interest income and other interest income, of RUB 23,458 million (as compared to RUB 16,192 million for the nine-month period ended 30 September 2018); interest expense of RUB 24,532 million (as compared to RUB 17,503 million for the nine-month period ended 30 September 2018); non-interest income, being income from operating leases and other operating income, of RUB 21,444 million (as compared to RUB 17,553 million for the nine-month period ended 30 September 2018); and no amounts were recorded as operating lease expenses (as compared to RUB 1,746 million for the nine-month period ended 30 September 2018). Profit for the nine-month period ended 30 September 2019 amounted to RUB 2,452 million (as compared to RUB 523 million for the nine-month period ended 30 September 2018).

## History and relationship with the Russian Federation

STLC was incorporated in the Russian Federation as a Closed Joint Stock Company “Leasing Company of Civilian Aviation” on 12 November 2001. On 17 January 2006, STLC was reorganised and renamed as Open Joint Stock Company “State transport leasing company”. On 9 February 2015, STLC changed its form of incorporation from Open Joint Stock Company to Public Joint Stock Company in accordance with changes in the laws of the Russian Federation.

### Key milestones

- 2009: Vladimir Putin, President of the Russian Federation, ordered the establishment of a single-purpose leasing company to acquire domestic vehicles and road-building machinery and a single-purpose leasing company (meaning that its focus is on the transport sector) was set up on the basis of STLC with a RUB 10 billion capital injection.
- 2010: The Russian Government pursued a policy of active support for domestic manufacturers as part of its crisis management programme following the 2008 Global Financial Crisis which generated business for STLC. STLC worked with these manufacturers to help the Russian Government implement its crisis management programme. At the same time, STLC began operating commercial leasing programmes financed by domestic bank funding in various sectors of the Russian economy.
- 2011: STLC is ranked in the top five in the leasing companies market having established itself as a leader in the railway, aviation and maritime transport leasing segments. Active development of the railway equipment sector.
- 2012: Development of regional aviation leasing, including a relationship with PJSC “Aeroflot” by STLC. S&P commenced rating of STLC. Cumulative investment in programmes of non-commercial leasing as of the end of 2012 exceeded RUB 20 billion.
- 2013: STLC entered Asian debt markets – a USD 800 million facility agreement was entered into with ICBCL. The procurement of five units of Airbus A321 for Aeroflot was financed in conjunction with ICBCL. The Group became the largest aircraft supplier for regional aviation and entered the maritime leasing segment. STLC also began to develop its operating lease segment. Debut domestic bonds of RUB 20 billion issued by STLC.
- 2014: STLC entered the international aircraft leasing market, delivering two aircraft under a leasing agreement with PLL SCAT Air Company (Kazakhstan). STLC continued operations in the maritime segment and entered contracts for building of three multi-product carrier type vessels.
- 2015: Further development of co-operation with ICBCL – the procurement of three units of Boeing 777-300ER for Aeroflot was financed. STLC received two capital injections in the total amount of RUB 34.9 billion from the Government of the Russian Federation. The programme of operating leases of Sukhoi Superjet 100 aircraft is launched. According to Expert RA, STLC became the leader of the aviation leasing segment and one of the leaders in the maritime transport leasing segment (by new business volume) and ranked first in the operating leasing sector in Russia. Long-term credit rating of ‘B+’ (stable outlook) assigned by S&P.
- 2016: The Group continued to access Asian financial markets and entered into an arrangement with CMBFL with regard to financing seven new Airbus A320-214 aircraft which were further leased out to PJSC “Aeroflot” with a total value of USD 323 million. Additional long-term credit ratings were received: “Ba2” (negative outlook) from Moody’s

and “BB” (stable outlook) from Fitch. The long-term credit rating from S&P was uplifted by one notch to “BB-” (stable outlook). A five-year USD 500 million debut Eurobond issue was placed and listed on Euronext Dublin. STLC received capital injections in the aggregate amount of RUB 12.4 billion from the Government of the Russian Federation. A RUB 30 billion loan facility was granted to STLC by Gazprombank to finance the programme of operating leases of Sukhoi Superjet 100 aircraft. STLC became the leader of the Russian leasing industry by new business volume and the fourth largest company by size of lease portfolio as of 31 December 2016, according to Expert RA.

- 2017: STLC received a capital contribution to the charter capital from the Russian Government in the amount of RUB 1.98 billion in March 2017 and additional capital injections that totalled RUB 9.3 billion in December 2017. Moody's affirmed STLC's long-term corporate family rating at “Ba2” and revised its outlook to “stable” from “negative”. In May 2017, Fitch upgraded STLC's long-term IDRs in foreign and local currencies to “BB” from “BB-” with a “stable” outlook, which was uplifted to a “positive” outlook in December 2017. S&P Global Ratings affirmed STLC's long-term credit ratings at “BB-” and revised the outlook to “positive” from “stable” in August 2017. The Russian rating agency Analytical Credit Rating Agency (ACRA) assigned a rating of “A+(RU)” with a stable outlook to STLC in June 2017. A seven-year USD 500 million Eurobond was placed and listed on Euronext Dublin. STLC became the largest Russian leasing company by size of lease portfolio as of 31 December 2017, according to Expert RA.
- 2018: In December 2018, budget financing in the aggregate amount of RUB 20.7 billion was allocated to STLC to further expand the programme of operating leases of Sukhoi Superjet 100 aircraft and the programme for the support of the national helicopter industry and to develop a new programme for the development of the leasing of domestically built dry cargo ships and high-speed passenger vessels, commencing in 2019. Construction of the coal terminal Lavna in Murmansk region commenced. In 2018, STLC launched the implementation of an aircraft fleet monitoring system. A global leasing platform, GTLK GLOBAL BUSINESS, was established, comprising GTLKE in Dublin (Ireland) and newly established subsidiaries GTLK Asia in Hong Kong and GTLK Middle East in Dubai. In August 2018, Deputy Prime Minister of the Russian Federation M.A. Akimov took a seat on STLC's Board of Directors and was elected the Chairman. In November 2018, GTLKE concluded a USD 340 million refinancing debt facility secured by a portfolio of 14 aircraft and arranged by PK AirFinance and supported by Credit Agricole CIB. STLC is ranked within the top 10 issuers of bonds issued by Russian issuers in the local Russian market with a market share of 3.4 per cent of the total amount of outstanding bonds issued in the local Russian market by Russian issuers, according to Cbonds. According to Expert RA, as at 31 December 2018, STLC ranked first by size of lease portfolio and the volume of new business among Russian leasing companies.
- 2019: In February 2019, Moody's upgraded STLC's long-term corporate family rating to “Ba1” from “Ba2” and GTLKE's foreign currency backed senior unsecured debt rating to “Ba2” from “Ba3”, both with a “stable” outlook. In March 2019, GTLKE concluded a USD 182.7 million refinancing of five Airbus A320-214 aircraft on lease to PJSC “Aeroflot” structured as a sale and finance leaseback transaction with a major Chinese lessor. In April 2019, the 2025 Notes were issued. In May 2019, S&P upgraded STLC's long-term credit rating from “BB-” to “BB” with a ‘stable’ outlook. In August 2019, Fitch upgraded STLC's long-term issuer default ratings from “BB” to “BB+” followed by a revision of outlook from ‘stable’ to ‘positive’ in November 2019. In June 2019, GTLKE refinanced three Boeing 777-300ER aircraft, all subject to long term leases with Aeroflot. The USD 265 million facility was underwritten by DVB Bank SE, PK AirFinance, Credit Agricole CIB, the Korea Development Bank and NEC Capital Solutions Limited. As at 30 September 2019, STLC's

lease portfolio exceeded RUB 1,029 billion, according to Expert RA. In October 2019, the 2026 Notes were issued. In December 2019, STLC received budget funding in the total amount of RUB 13.55 billion to finance various state programmes, including budgetary subsidies of RUB 4.9 billion for the further development of the Sukhoi Superjet 100, small regional aviation and national helicopter programmes, RUB 5.55 billion for the acquisition and further lease of domestically built civil vessels, and a direct capital injection of RUB 3 billion for the financing of leases under the federal project “Digital technologies” as part of the national programme “Digital Economy of the Russian Federation”.

As a state-owned company, STLC’s corporate governance and risk management practices are controlled by the Ministry of Transport of the Russian Federation. Certain significant leasing transactions entered into by STLC must be approved by the Ministry of Transport in its capacity as the sole shareholder. STLC’s strategy is aligned with governmental initiatives but STLC has the ability to make independent decisions on its day-to-day principal business activities.

Strategic control over STLC’s strategy and development is also exercised by the three representatives of the Government who sit on the Board of Directors along with three independent directors and three other directors. As at the date of this Prospectus, the Board of Directors of STLC includes a representative of the Ministry of Transport of the Russian Federation – Mr Alafinov, First Deputy Minister of Transport, a representative of the Ministry of Industry and Trade – Mr Bocharov, Deputy Minister of Industry and Trade and is chaired by former Deputy Prime Minister of the Russian Federation – Mr Akimov, demonstrating the increasing significance of STLC to the shareholder and the Russian Government. For a more detailed discussion on STLC’s management, see “*Management*”.

### Significant Subsidiaries

STLC has a number of subsidiaries incorporated outside of the Russian Federation and held through GTLKE, which was incorporated in Ireland in 2012. These subsidiaries are corporate vehicles through which the Group holds certain of the assets that it leases to customers, including those such as aircraft and maritime vessels, which are largely registered in the jurisdictions in which such subsidiaries are incorporated. GTLKE is the ultimate controlling party of the following companies:

<b>Company Name</b>	<b>Country of incorporation</b>	<b>Date of incorporation</b>
GTLK 5737 Limited	Ireland	24 January 2013
GTLK AFL Ltd	Bermuda	11 July 2013
GTLK BO1 Ltd	Bermuda	11 July 2013
GTLK BO2 Ltd	Bermuda	11 July 2013
GTLK BO3 Ltd	Bermuda	24 July 2013
STLC Europe One Leasing Limited	Ireland	10 July 2013
STLC Europe Two Leasing Limited	Ireland	10 October 2013
GTLK MALTA Limited	Malta	10 October 2013
GTLK BO4 Ltd	Bermuda	13 February 2014
GTLK BO5 Ltd	Bermuda	14 February 2014
GTLK Lietuva 01 UAB	Republic of Lithuania	21 February 2014
GTLK BO6 Ltd	Bermuda	29 April 2014
STLC Europe Three Leasing Limited	Ireland	10 November 2015
STLC Europe Four Leasing Limited	Ireland	18 November 2015
STLC Europe Five Leasing Limited	Ireland	10 February 2016
GTLK Malta Two Limited	Malta	13 June 2016
GTLK Malta Three Limited	Malta	3 August 2016

<b>Company Name</b>	<b>Country of incorporation</b>	<b>Date of incorporation</b>
STLC Europe Six Leasing Limited	Ireland	3 November 2016
STLC Europe Seven Leasing Limited	Ireland	22 February 2017
STLC Europe Eight Leasing Limited	Ireland	22 February 2017
STLC Europe Nine Leasing Limited	Ireland	30 June 2017
STLC Europe Ten Leasing Limited	Ireland	13 July 2017
GTLK Malta Four Limited	Malta	14 November 2017
STLC Europe Eleven Leasing Limited	Ireland	6 November 2017
GTLK Malta Five Limited	Malta	30 October 2017
STLC Europe Sixteen Leasing Limited	Ireland	22 December 2017
STLC Europe Twelve Leasing Limited	Ireland	3 January 2018
GTLK Europe Capital DAC	Ireland	17 January 2018
STLC Europe Thirteen Leasing Limited	Ireland	17 January 2018
STLC Europe Fourteen Leasing Limited	Ireland	7 February 2018
STLC Europe Fifteen Leasing Limited	Ireland	9 February 2018
STLC Europe Seventeen Leasing Limited	Ireland	13 March 2018
STLC Europe Eighteen Leasing Limited	Ireland	13 March 2018
STLC Europe Nineteen Leasing Limited	Ireland	13 March 2018
STLC Europe Twenty Leasing Limited	Ireland	13 March 2018
STLC Europe Twenty One Leasing Limited	Ireland	13 March 2018
STLC Europe Twenty Two Leasing Limited	Ireland	13 March 2018
STLC Europe Twenty Three Leasing Limited	Ireland	13 March 2018
STLC Europe Twenty Four Leasing Limited	Ireland	13 March 2018
STLC Europe Twenty Five Leasing Limited	Ireland	13 March 2018
STLC Finance One Limited	Ireland	13 March 2018
GTLK Middle East FZCO	UAE	7 October 2018
Advanced Logistics & Finance Solutions SA	Switzerland	28 April 2017
STLC Europe Twenty Seven Leasing Limited	Ireland	23 August 2018
STLC Europe Twenty Eight Leasing Limited	Ireland	28 March 2018
STLC Finance Two Limited	Ireland	29 April 2019
GTLK Malta Six Limited	Malta	31 July 2019
STLC Europe Twenty Nine Leasing Limited	Ireland	3 September 2019
STLC Europe Thirty Leasing Limited	Ireland	3 September 2019
STLC Europe Thirty One Leasing Limited	Ireland	3 September 2019
STLC Europe Thirty Two Leasing Limited	Ireland	4 September 2019
STLC Europe Thirty Three Leasing Limited	Ireland	4 September 2019
STLC Europe Thirty Four Leasing Limited	Ireland	3 September 2019
STLC Europe Thirty Five Leasing Limited	Ireland	3 September 2019

On 12 May 2015, the tax registration of Limited Liability Company “GTLK-Finance”, a 100 per cent subsidiary of STLC incorporated in the Russian Federation, was completed. This company is used for structuring transactions for Rouble denominated public debt instruments of STLC traded on the Moscow Exchange as well as the management of outstanding public debt.

In 2016, the tax registration of Limited Liability Company "GTLK-Invest" was completed. STLC and Limited Liability Company "GTLK-Finance" jointly own 100 per cent of the share capital of Limited Liability Company "GTLK-Invest".



In November 2016, the Group acquired a 95 per cent share in Limited Liability Company “Rozana” and a 100 per cent share in Lavna LLC. As at the date of this Prospectus, the above companies hold the necessary planning permission and construction documentation in respect of a trading seaport project and the leaseholds of certain land plots, respectively, in the Murmansk region. In April 2019, the Group acquired a 5 per cent share in Limited Liability Company “Rozana” (increasing its ownership interest to 100 per cent) and simultaneously sold a 95 per cent share in Lavna LLC (decreasing its ownership interest to 5 per cent), while maintaining control over its operations and business decisions of Lavna LLC on the basis of a shareholders’ agreement. See “*Maritime Transportation*” below for further details on the Lavna project.

In September 2018, the Group established GTLK Asia Limited in Hong Kong. STLC and GTLK – Finance LLC jointly own 100 per cent of the share capital of GTLK Asia Limited.

In October 2018, GTKLE established a 100 per cent subsidiary, GTLK Middle East FZCO, in the United Arab Emirates.

In November 2018, Limited Liability Company “Sukhoi Port Yuzhnouralsky” and Limited Liability Company “GTLK-1520” were registered. GTLK – Finance LLC and GTLK – Invest LLC jointly own 100 per cent of the share capital of both LLC “Sukhoi Port Yuzhnouralsky” and LLC “GTLK-1520”.

In July 2019, a subsidiary of GTLKE (GTLK Middle East FZCO) together with Trecastle Global Investments LLC (UAE) incorporated a joint venture in the UAE, Aurum Leasing Limited. GTLK Middle East FZCO holds 50 per cent. of the shares in Aurum Leasing Limited.

## **STRATEGY**

As a state-owned company, the Group’s strategy is influenced by the Ministry of Transport of the Russian Federation and subject to approval by the Prime Minister and Cabinet of Ministers, and STLC’s strategy is therefore based on its function as a tool for implementing government policy, primarily through STLC’s non-commercial leasing programmes to support modernisation in the transport sector and the implementation of anti-crisis measures to support the Russian economy. STLC’s strategy for both its commercial and non-commercial operations is as follows:

- implementation of government support of the transport sector: STLC acts as an agent under several state programmes aimed at the development of the transport sector in the Russian Federation. These include: (i) the development of operating leasing of Sukhoi Superjet 100 aircraft (described in further detail in the paragraph below); (ii) regional programmes to improve energy efficiency in the transport sector; (iii) finance leasing of passenger rolling stock for local commuter services; (iv) a programme for the development of water transport leasing and ferry services; (v) a programme for the support of the national helicopter industry; (vi) a programme for the development of regional small aircraft; (vii) a programme for the development of the leasing of domestically built dry cargo ships and high-speed passenger vessels; and (viii) a programme for the development and support of sales of IL-96-400M aircraft, which is expected to commence in 2020;
- promotion of the Sukhoi Superjet 100 aircraft through the implementation of a large-scale operating lease programme, which is co-financed by the Russian Federation. STLC received two capital contributions of RUB 30,000 million in 2015 and RUB 4,000 million in 2016 under this programme, and additional budget funding in the form of budgetary subsidies of RUB 9,800 million in 2018 and RUB 2,029.4 million in 2019;
- attracting non-budget financing for the development of the transport sector: STLC’s programmes are developed on a co-financing principle and promote private investments in projects in the transport sector, backed by governmental support in the form of direct funding

which is the most attractive to investors. STLC is also a member of the Russia-China commission on co-operation in the transport sector, where STLC presents potentially attractive projects to foreign investors and raises international funding for the transport sector from a broader range of international financial institutions;

- support of the transport machinery sector in Russia: programmes being implemented by STLC create and enhance demand for Russian transport machinery helping to implement the government's objective of reducing reliance on imports;
- international expansion of the Group's business: one of the key objectives of the Group for the period from 2019 to 2024 is increasing its international market representation through a global leasing platform, GTLK GLOBAL BUSINESS, which was established in 2018 with the participation of GTLKE (Ireland), GTLK Asia (Hong Kong) and GTLK Middle East (Dubai) (**GTLK Global**). This platform is intended to be used for increasing the Group's client base across various geographies and optimising the costs of non-budget financing raised by the Group through co-operation with international financial institutions. The key objectives of GTLK Global platform will be the development of the international aviation and maritime leasing business, as well as the diversification of funding sources for the Group. Furthermore, one of the strategic goals of this platform will be to promote the export of Russian high-technology products, including the Sukhoi Superjet 100 and the MC-21 aircraft, civil (non-military) helicopters produced by JSC "Russian Helicopters" and other products, as well as the establishment of service centres and spare parts deposits for the maintenance of Russian-built vehicles abroad; and
- digital transformation and improvement of the Group's operating efficiency: one of the key objectives of the Group for the period from 2019 to 2024 is digitalisation aimed at (i) the enhancement of operating activities and the improvement of the Group's management system; (ii) the digital transformation of the Russian Federation's transport industry through the implementation of digital ecosystem establishment measures and the development of transport-related digital services; (iii) the arrangement of conditions for the financing of digital technology project development and adoption.

Pursuant to the above strategies, the Group intends to consolidate its strong position in the Russian domestic leasing market and expand its international market representation by:

- further diversifying and expanding its lease portfolio by increasing the volume of lease transactions entered into in the transportation, machinery and industrial equipment sectors (mainly transport infrastructure projects) in order to ensure that the Group is not overly dependent on any one sector, or related sectors, or on a particular client or group of clients, for the continued growth and success of its business;
- continuing to focus on aviation leasing both through the leasing of internationally manufactured aircraft and the Sukhoi Superjet 100 programme. Aviation Leases made up 49.05 per cent of the Group's aggregate lease portfolio (gross of impairment allowance) as at 30 September 2019, compared to 50.04 per cent as at 30 September 2018, 49.87 per cent as at 31 December 2018 and 51.20 per cent as at 31 December 2017. See "*Business – The Group'S Business – Leasing operations of the Group*" for more detailed information on the Group's leasing operations. The overall dynamics in the segment principally reflect the need for many Russian airlines to modernise their fleets and the desire of the Russian Federation to support this and, in particular, to develop the Sukhoi Superjet 100 and the on-going operations of the Group in the international aviation leasing market;
- increasing the Group's rail and maritime lease portfolio in absolute terms, although their respective shares of the total portfolio is expected to remain substantially unchanged due to

the Group's continued focus on aviation operating leases, both through the leasing of internationally manufactured aircraft and the Sukhoi Superjet 100 programme;

- diversifying its sources of funding and attracting extra-budgetary investment into the development of the transport infrastructure industry by increasing its exposure to the domestic and international capital markets, including through the issue of debt securities such as the Notes, and borrowing from a range of domestic and international banks;
- assessing acquisition opportunities on a case-by-case basis in order to achieve its above objectives for the diversification and expansion of its lease portfolio, rail leasing business, aviation leasing business and other services by way of acquisition where appropriate opportunities for any such acquisitions arise. Whilst the Group continues to seek and identify such acquisition opportunities, such acquisitions have, in the past, been, and may, in the future, be, prohibited by the Federal Antimonopoly Service of the Russian Federation which may impact on the ability of the Group to achieve this objective; and
- implementing digital transformation measures and participation in the financing of projects for the development and adoption of domestic technologies and platform solutions aimed at the digital transformation of the Russian transport and logistics industries. For instance, in December 2019, STLC received a capital injection from the state in the amount of RUB 3 billion for the financing of leases under the federal project "Digital technologies" as part of the national programme "Digital Economy of the Russian Federation".

Although STLC's strategy is aligned with the Russian Federation's and the Ministry of Transport's priorities, any such goals do not override STLC's general corporate aims, including the generation of profit and focus on commercial projects. Although higher return levels are not a key priority point for STLC's shareholder, management believes that it is crucial to maintain, and is therefore focused on maintaining, profitable operations. STLC's management also focuses on maintaining the financial stability of STLC while realising its aims as an agent of the Russian Federation, as well as realising necessary digital transformation and improvement of operating efficiency.

STLC's operations are currently primarily commercial. Its non-commercial operations, as at the date of this Prospectus, consist of: (i) the Sukhoi Superjet 100 programme; (ii) regional programmes to improve energy efficiency in the transport sector; (iii) finance leasing of passenger rolling stock for local commuter services; (iv) a programme for the development of water transport leasing and ferry services; (v) a programme for the support of the national helicopter industry; (vi) a programme for the development of regional small aircraft; (vii) a programme for the development of the leasing of domestically built dry cargo ships and high-speed passenger vessels; (viii) a programme for the development and adoption of domestic technologies and digital platform solutions aimed at the digital transformation of the national transport industry; and (ix) a programme for the promotion of IL-96-400M aircraft sales. The latter programme is expected to commence in 2020.

## **COMPETITIVE STRENGTHS**

The Group believes that it enjoys the following key competitive strengths that it believes will enable it to meet its strategic objectives:

- The Group's ownership and support: the Group is owned by the Russian Federation and controlled by the Ministry of Transport with input from the Ministry of Industry and Trade. This provides the Group with important management, advisory, financial and staffing support from the Ministry and allows it to benefit strongly from its association with the State, and to provide additional credibility in its implementation of the Russian Government's policies for the support of domestic business and the development of the Russian economy and financial system. The Group also benefits from capital support from the State, for example benefiting

from a series of capital increases and receipt of budgetary subsidies of approximately RUB 92.8 billion in aggregate during the period from 2015 to 2019 under various state development programmes (see below).

- **Leading market position:** the Group enjoys a leading position in the Russian leasing market, which the Group believes it can leverage to further grow and develop its business and expand into new leasing markets. The Group enjoys a strong relationship with its key customers being PJSC “Aeroflot”, “Rossiya Airlines” JSC, JSC “Aurora Airlines”, JSC “Yamal Airlines”, CJSC “IrAero Airlines”, Yakutia Airlines, easyJet plc, Silk Way Airlines, JSC Azimuth Airlines, LCC “Severstal Aircompany”, SIA “Smartlynx Airlines” (Latvia), Alia-Royal Jordanian Airline PLC (Hashemite Kingdom of Jordan), GÜNEŞ EKSPRES HAVACILIK A.Ş. d/b/a SUN EXPRESS (Turkey) and SunExpress Deutschland GmbH (Germany) in aviation leasing; Modum-Trans, TGK, First Industrial Operator, Rail 1520 Service (United Wagon Company Group), SG-Trans and PJSC “Central exurban passenger company” in railway leasing; and BF Tanker, Pola Group and Havila Kystruten (Norway) in maritime leasing, which will be increasingly important drivers of the business as the Group focuses on these three key sectors.
- **Diversified leasing portfolio with stable credit quality:** the Group’s leasing portfolio is well diversified across key business segments and asset classes.
- **Access to funding:** the Group operates in a capital-intensive industry and, accordingly, ease of access to funding is a key strength for its continued growth. The Group has been able to attract competitive funding from third-party domestic and international banks and in the domestic capital markets, which has allowed it to diversify its funding base (see “*Selected Financial Review – Funding*”). The government support means the Group has strong financing potential and has been able to enjoy a relatively stable cost of funding despite difficult market conditions. From January 2015 to December 2017, the Russian Government made a series of contributions to STLC’s charter capital in the amount of RUB 58,636.13 million in aggregate. In 2018, additional budget financing was allocated to STLC in the form of budgetary subsidies in the amount of RUB 20.7 billion. RUB 14.8 billion of this amount was received by STLC by 31 December 2018 and RUB 5.9 billion was recorded as other receivables as at 31 December 2018, as discussed in more detail in Note 23 to the 2018 Consolidated Financial Statements. STLC received the RUB 5.9 billion financing on 29 March 2019. In December 2019, STLC received budget funding in the total amount of RUB 13.55 billion to finance various state programmes, including a RUB 3 billion capital injection for the financing of leases under the federal project “Digital technologies” as part of the national programme “Digital Economy of the Russian Federation”. The federal budget of the Russian Federation for 2020 and the projected period of 2021 and 2022 also makes provisions for additional budgetary subsidies to STLC of RUB 13.8 billion aimed at supporting the sales of IL-96-400M aircraft in 2020 and RUB 5 billion for the acquisition and further lease of domestically built civil vessels in 2021.
- **Strong and experienced senior management:** each member of the senior management team of the Group has extensive experience in leasing, banking and finance. Since the Group’s establishment, the senior management team has guided STLC through a period of growth and diversification, has dealt with the challenges of the global financial crisis, and has the experience to continue to implement STLC’s strategic objectives and strong segment expertise in aviation, railcars and maritime leasing.
- **Experience in executing complex leasing transactions:** through the experience of STLC’s senior management team, and its key employees, together with its experience in executing complex transactions (gained largely as a result of its participation in large-scale

infrastructure projects, and equipment acquisitions for large rail companies and airlines), STLC has offered and continues to be in a position to offer its customers a service tailored to their individual leasing requirements.

## THE GROUP'S BUSINESS

The Group's business is the finance and operating leasing of transportation assets, including aircraft, railway rolling stock and maritime vessels and modern industrial equipment, such as that used in the transportation infrastructure industries. The assets leased by the Group are typically produced by leading Russian and international manufacturers, such as Airbus, Boeing, "Sukhoi Civil Aircraft" JSC, and "Russian Helicopters" JSC (State Corporation Rostec) in the aviation sector, Krasnoye Sormovo Shipyard (United Shipbuilding Corporation) and Okskaya Shipyard (Universal Cargo Logistics Holding) in the maritime sector, Ruzkhimmash JSC, JSC "Tikhvin Freight Car Building Plant", and JSC "Demikhovo Engineering Plant" (Transmashholding) in the rail sector and GAZ Group Bus Division, NEFAZ OJSC (KAMAZ Group of Companies), and Trolza CJSC in the transportation infrastructure sector. While the Group's operations are primarily commercial, as a leasing group owned by the Russian Federation, the Group is also actively involved in the implementation of a number of government non-commercial leasing programmes as set out in "*Business – Overview*". The Group is also engaged in large-scale projects, which are not typically eligible for finance leasing on terms acceptable to commercial banks and other non-specialist market investors, due largely to the scale and scope of such projects and the tenor of the leases required.

Historically, the Group has engaged primarily in finance leasing, with operating lease arrangements constituting only an insignificant part of its revenue and aggregate lease portfolio. In 2012, for example, the Group's leasing portfolio was composed of 100 per cent finance leases. However, over the past four years the Group has increasingly been providing operating leases: as at 31 December 2013 operating leases comprised 20 per cent of the Group's aggregate lease portfolio (net of impairment); this grew to 34 per cent as at 31 December 2014 and 67.5 per cent as at 31 December 2015. This has been driven by an increasing focus on the aviation sector where operating leases are more frequently used and a desire to increase exposure to operating leases because they allow the Group to better monitor and manage the deterioration in assets that occurs over time. In spite of the Group's share of operating leases decreasing to 50 per cent of its aggregate lease portfolio (net of impairment allowance) as at 31 December 2017, the Group remained the market leader in the operating leasing sector in Russia for the third consecutive year, according to Expert RA. In 2018-2019, STLC remained an active player in the operating leasing segment and ranked second and first in terms of volume of new operating leases for the year ended 31 December 2018 and the nine-month period ended 30 September 2019 respectively, according to Expert RA. The proportion of operating leases in the Group's aggregate lease portfolio (net of impairment allowance) decreased to 41 per cent as at 30 September 2019, due to STLC's increased activity in finance leases in the railway transport and maritime sectors. However, it is expected that the proportion of operating leases in the Group's aggregate lease portfolio will remain close to 50 per cent in the medium term.

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership to the lessee. The Group's finance leases have the following general characteristics:

- the lessee selects the asset to be purchased, with the Group purchasing such asset and retaining legal title to the asset;
- the lessee has the right of use of the asset during the term of the lease, in return for a series of lease payments;
- the Group recovers all, or a substantial part of the cost of the asset and earns interest over the term of the lease; and

- the lessee has the option to acquire ownership of the asset, usually by way of making a residual payment, at the end of the lease term (failing which the Group has the ability to sell the asset and recover any residual value).

For a more detailed discussion of finance leasing, see “*Finance Leasing*” below.

By contrast, an operating lease is typically a shorter-term arrangement, whereby a lessee acquires the right to use an asset for a defined period of time in return for rental payments, but without the expectation of ownership at the end of the lease period. The period of time in which the lessee can use the asset is typically shorter than the life of the asset, meaning that any particular asset could have several lessees during its life. A lease is therefore classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership to the lessee. Such leases are frequently used by airlines. For a more detailed discussion of operating leasing, see “*Operating Leases*” below.

The Group is a key player in the leasing sectors in which it operates. Expert RA ranked the Group as the largest leasing company by size of lease portfolio and second largest by new business volume in the Russian Federation as at 30 September 2019.

The Group believes that its aggregate lease portfolio, being its net investment in leases for any financial year (being the gross investment in Rouble terms that it makes in assets that are then leased to customers (on the terms of the relevant finance lease entered into with such customer) less unearned finance lease income and before any allowance for impairment) together with its net operating leases (being its operating leases less depreciation of the relevant assets), when broken down by leasing sector provides a useful indicator as to the relative size of each such sector of its aggregate lease portfolio. The following table sets out STLC’s aggregate lease portfolio in each of its key leasing sectors for the nine-month period ended 30 September 2019 and 30 September 2018 and for the years ended 31 December 2018 and 31 December 2017 together with the percentage share of its aggregate lease portfolio represented by each sector:

	30 September 2019 (unaudited)		30 September 2018 (unaudited)		31 December 2018		31 December 2017	
	Net investment in leases / Net operating leases (RUB million)	Percentage of aggregate lease portfolio (%)	Net investment in leases / Net operating leases (RUB million)	Percentage of aggregate lease portfolio (%)	Net investment in leases / Net operating leases (RUB million)	Percentage of aggregate lease portfolio (%)	Net investment in leases / Net operating leases (RUB million)	Percentage of aggregate lease portfolio (%)
Sector								
Aircraft industry and airport services	245,249	49.05	179,918	50.04	201,139	49.87	138,982	51.20
Rail transportation services	180,555	36.11	132,364	36.81	147,530	36.6	96,911	35.7
Maritime transportation and port facilities services	51,081	10.22	32,156	8.94	35,876	8.9	22,520	8.3
Cargo and passenger motor transport	9,169	1.83	7,192	2.00	9,256	2.3	7,755	2.9
Financial activity	5,691	1.14			1,196	0.3	-	-
Production of various machinery and equipment	3,150	0.63	2,779	0.77	2,863	0.7	866	0.3
Mining industry	1,899	0.38			2,274	0.6	1,752	0.7
Trading activities	1,805	0.36	1,683	0.47	2,148	0.5	1,692	0.6
Road construction and services	1,155	0.23	2,787	0.78	988	0.3	889	0.3
Other Industries	259	0.05	675	0.19	47	0.01	70	0.03
<b>Aggregate lease portfolio</b>	<b>500,013</b>	<b>100</b>	<b>359,554</b>	<b>100</b>	<b>403,317</b>	<b>100</b>	<b>271,437</b>	<b>100</b>
<b>Less impairment allowance</b>	<b>(2,798)</b>		<b>(1,720)</b>		<b>(1,852)</b>		<b>(1,150)</b>	
<b>Aggregate lease portfolio less impairment allowance</b>	<b>497,215</b>		<b>357,834</b>		<b>401,465</b>		<b>270,287</b>	
<b>Aggregate net investments in leases net of impairment</b>	<b>295,524</b>		<b>193,564</b>		<b>225,637</b>		<b>135,916</b>	
<b>Aggregate assets leased out under operating leases net of impairment</b>	<b>201,691</b>		<b>164,270</b>		<b>175,828</b>		<b>134,371</b>	

## **Aviation Transportation**

As a result of the increase in passenger and cargo air traffic over recent years, in combination with the deterioration of existing aircraft fleets in the Russian Federation and the need to replace these with newer and more efficient aircraft, Russian airlines are in the process of modernising their fleets. Accordingly, aircraft leasing has increasingly become a priority business line for the Group, and the Russian leasing market as a whole. The Group leased its first aircraft in 2009 and, since then, the Group's fleet of leased aircraft currently in operation has increased to 251 aircraft as at 31 December 2019 including aircraft for regional and general purposes, helicopters and large aircraft. Aviation Leases, in terms of portfolio structure based on types of equipment, represents the largest group of assets in the Group's aggregate lease portfolio (including finance and operating leases) comprising RUB 245,249 million as at 30 September 2019, being 49.05 per cent of the Group's aggregate lease portfolio (gross of impairment allowance), compared with RUB 179,918 million as at 30 September 2018, being 50.04 per cent. As at 30 September 2019, it comprised 16.7 per cent of the Group's aggregate net investment in leases (gross of impairment allowance) and 96.8 per cent of assets leased out under operating leases in terms of book value, as compared to 10.8 per cent of the Group's net investment in leases and 96.7 per cent of assets leased out under operating leases as at 30 September 2018. The Group's key customers in this segment include, amongst others, PJSC "Aeroflot", "Rossiya Airlines" JSC, JSC "Aurora Airlines", JSC "Yamal Airlines", CJSC "IrAero Airlines", Yakutia Airlines, JSC Azimuth Airlines, LCC "Severstal Aircompany" and international enterprises such as easyJet (United Kingdom), Silk Way Airlines (Azerbaijan), SIA "Smartlynx Airlines" (Latvia), Alia-Royal Jordanian Airline PLC (Hashemite Kingdom of Jordan), GÜNEŞ EKSPRES HAVACILIK A.Ş. d/b/a SUN EXPRESS (Turkey) and SunExpress Deutschland GmbH (Germany).

The aviation leasing market has grown significantly in the last few years. This is largely a result of the continuing trend for increases in passenger and cargo air traffic but has also been accelerated by the Russian Federation's state subsidy programme for the leasing of new Russian Sukhoi Superjet 100 aircraft which commenced in 2015 and is still on-going in 2020.

According to Expert RA, the Group ranked first among aircraft leasing companies in Russia by the size of aviation leasing portfolio with a market share of 26.9 per cent, as at 31 December 2018 and second by new business volume in the aviation transportation segment with its market share exceeding 33 per cent in 2018. The Group's market share in the aviation leasing sector increased to 93.4 per cent by new business volume for the nine-month period ended 30 September 2019. The Group ranked first by the size of aviation lease portfolio with a market share of 29 per cent, as at 30 September 2019, according to Expert RA.

### **STLC's Non-commercial Aviation Leasing Operations**

While the Group's scope of non-commercial aviation leasing programmes was initially limited to the Sukhoi Superjet 100 programme, in 2016 it was extended to cover leasing of domestically built helicopters and regional aircraft. In December 2017, STLC received a capital contribution of RUB 4,000 million aimed at the development of a new programme for the support of sales of IL-96-400M aircraft. The capital contribution was later diverted to finance the programme for the support of the national helicopter industry (RUB 3,000 million) and the programme for the development of regional small aircraft (RUB 1,000 million).

#### ***Sukhoi Superjet 100***

As a measure of direct state support under the aforementioned non-commercial programmes, in August 2015 the Russian Government approved a capital injection of RUB 30,000 million which was received by STLC in the fourth quarter of 2015. At the MAKS-2015 international air show, the Group in turn entered into memoranda of understanding in relation to lease agreements for 118 Sukhoi



Superjet 100 aircraft (including 60 aircraft that are to be delivered over the next three years) with Red Wings Airlines, Tuva Airlines, Yakutia Airlines, JSC “Yamal Airlines” and “Orenburzhye”. The Group is not required to deliver all of the above-mentioned 118 aircraft to the lessees and, considering the number of preliminary contracts for leasing entered into, is free to choose lessees under the programme. In 2018, STLC received budget financing in the form of budgetary subsidies in the amount of RUB 9,800 million aimed at the further development of this programme and the acquisition of eight additional Sukhoi Superjet 100 aircraft, of which three were delivered in 2018, four were delivered in 2019, and one is expected to be delivered in the first half of 2020. At the MAKS-2019 international air show, the Group signed lease contracts for the operating lease of two Sukhoi Superjet 100 aircraft with JSC Azimuth Airlines, and one remarketed Sukhoi Superjet 100 aircraft with Yakutia Airlines. In terms of the programme implementation, as at 31 December 2019, 41 Sukhoi Superjet 100 aircraft have been leased out by STLC through operating leases. A further three aircraft are expected to be leased out throughout 2020. In December 2019, STLC received budget financing in the form of budgetary subsidies in the amount of RUB 2,029.4 million aimed at the further development of this programme and the acquisition of two additional Sukhoi Superjet 100 aircraft, which are expected to be delivered in 2021.

### ***Support of National Helicopter Manufacturing Industry***

In December 2016, STLC received a RUB 3,847.72 million capital contribution to develop its operating lease business for helicopters (Mi-8 and Ansat) produced by Russian manufacturers. The primary objective of the programme is the improvement of civil flight safety levels by means of replacing obsolete helicopter fleets with newer (Ansat) models and heavily modernised models (Mi-8 MTV/AMT). These measures are expected to decrease the average age of the helicopter fleet in Russia. In 2017, STLC signed agreements with Russian Helicopters for the delivery of 23 units of Mi-8 and six units of Ansat helicopters in 2017. At the HeliRussia-2017 Exhibition, STLC and Russian Helicopters signed a contract for the annual delivery of up to 64 helicopters from 2018 to 2020. These units shall be used for regional passenger transportation and air ambulance services thus improving transport accessibility and social security levels in certain regions of the Russian Federation with adverse transport accessibility, in line with the Government policy of regional development. Therefore leases issued in respect of such assets shall often be eligible for certain types of state support. Implementation of the programme shall also promote domestic production of modern types of helicopters on Russian plants and increase the market capacity for helicopter operating leasing both by offering favourable rates under state-supported programmes and increasing the supply of new helicopters at competitive prices as a consequence of the economies of scale associated with the re-development of the helicopter manufacturing industry. In December 2017, STLC received an additional capital injection of RUB 4,300 million under this programme for the acquisition of 31 units of Mi-8 and Ansat helicopters. Out of these 31 helicopters, 27 units were delivered and leased out in 2018, while the remaining four units were delivered and leased out in January 2019. In accordance with the Decree of the Government of the Russian Federation dated 23 August 2018, STLC diverted equity in an amount of RUB 3,000 million out of the RUB 4,000 million capital injection received in December 2017 (initially intended for the launch of the IL-96-400M aircraft programme, as described below) for the acquisition of an additional 19 units of Mi-8 and Ansat helicopters, which were delivered in 2019. In 2018, STLC received budget funding in the form of budgetary subsidies in the amount of RUB 5,000 million for the acquisition of a further 31 units of Mi-8 and Ansat helicopters to be delivered in 2019-2020. Accordingly, the total budget financing aimed at the extension of this programme amounted to RUB 8,000 million in 2018. As of 31 December 2019, STLC contracted for the lease of 112 units of Ansat and Mi-8 helicopters under this programme, of which a total of 87 units have already been leased out on a commercial basis to customers, including small regional airlines. In December 2019, STLC received budget financing in the form of budgetary subsidies in the amount of RUB 1,670.6 million aimed at the further development of this programme and the acquisition of seven additional Mi-8 and three additional Ansat helicopters, which are expected to be delivered in 2021.

### ***Support of Small Regional Aviation***

As a consequence of STLC's operations in the wider segment of aircraft, it has identified potentially strong demand for regional aircraft leasing in Russia. As many regions of the Russian Federation include certain areas with adverse transport accessibility, development of a regional aviation transportation network is crucial in terms of the Government policy of regional development. Maintaining constant operation of regional lines may be a challenging task for the carriers for several reasons, including unstable passenger load levels which are subject to seasonal fluctuations. In such circumstances, STLC believes it is increasingly important to develop a leasing product which minimises the carriers' cost while allowing for the necessary fleet expansion to promote a developed transportation network. Presidential decrees No. Пп-865 dated 30 April 2015 and No. Пп-735 dated 19 April 2016 set out a number of measures to support local manufacturing of LET L-410 aircraft by Ural Works of Civil Aviation plant under the licence of LET, N.P., Czech Republic. In December 2016, STLC received a RUB 1,000 million capital contribution for the acquisition of five units of LET L-410 aircraft and advanced the same to such manufacturer when placing orders under construction contracts. Further development of the project is expected to have a positive impact on the development of the regional air transportation business in Russia, while continuous support of local manufacturing may potentially result in a further decrease of construction costs with minimum sensitivity to foreign exchange rates, thus increasing market capacity for small regional aircraft leasing. In December 2017, STLC received a further RUB 1,000 million capital contribution for the acquisition of another five units of LET L-410 aircraft. In accordance with the Decree of the Government of the Russian Federation dated 23 August 2018, STLC diverted equity in the amount of RUB 1,000 million out of the RUB 4,000 million capital injection received in December 2017 (initially intended for the launch of the IL-96-400M aircraft programme, as described below) for the acquisition of an additional four units of LET L-410 aircraft, which were delivered in 2019. As of 31 December 2019, STLC contracted for the lease of 14 units under this programme, of which a total of 13 units have already been leased out. In December 2019, STLC received budget financing in the form of budgetary subsidies in the amount of RUB 1,200 million aimed at the further development of this programme and the acquisition of five additional L-410 aircraft, which are expected to be delivered between 2020 and 2021.

### ***Support of Sales of IL-96-400M Aircraft***

In December 2017, STLC received a RUB 4,000 million capital injection for the construction and development of sales of the IL-96-400M aircraft, a wide-body long-range airliner based on the Il-96 aircraft. The federal budget of the Russian Federation for 2018 and the projected period of 2019 to 2020 also made provisions for additional budgetary subsidies to STLC in the amount of RUB 9,800 million aimed at developing the IL-96-400M aircraft programme. Originally it was intended that both of these grants would be advanced by STLC to the United Aircraft Company (UAC) for the construction of two units of IL-96-400M aircraft. However, the commencement of the programme was postponed until 2020. In accordance with the Decree of the Government of the Russian Federation dated 23 August 2018, STLC diverted a total RUB 4,000 million of equity to finance both the development of the helicopter programme (RUB 3,000 million) and the small regional aviation programme (RUB 1,000 million), whereas the budgetary subsidies in an amount of RUB 9,800 million were allocated for the acquisition of additional eight Sukhoi Superjet 100 aircraft under the Sukhoi Superjet 100 programme. The federal budget of the Russian Federation for 2020 and the projected period of 2021 to 2022 makes provisions for additional budgetary subsidies to STLC in an amount of RUB 13,800 million which are aimed at developing the programme for the support of sales of the IL-96-400M aircraft. These subsidies are expected to be granted and the programme is expected to commence in 2020.

## STLC's Commercial Aviation Leasing Operations

Aside from GTLKE's commercial leasing operation, details of which are discussed below, and STLC's state programmes for the support of the Russian helicopter industry and the development of small regional aviation which commenced in 2017, STLC's commercial aviation leasing relates primarily to small regional aircraft such as LET L-410 (12 aircraft), which are leased on a commercial basis. As at 30 September 2019, its share was limited to less than 1 per cent of the Group's finance lease portfolio.

Such leases are issued to local carriers and are often eligible for certain types of state support (i.e. state subsidising of lessees' expenses) as a part of a governmental incentive to promote a regional aviation transportation network.

### *GTLKE's Aviation Leasing operations*

GTLKE is an important component of the Group's commercial aviation leasing operations. GTLKE Group's total assets of RUB 188.6 billion made up 30 per cent of the Group's total assets as at 30 September 2019. Assets are leased to customers through GTLKE's subsidiaries, particularly aircraft which are largely registered in the jurisdictions in which such subsidiaries are incorporated. The fleet is primarily represented by long-range aircraft, as opposed to STLC's fleet of regional aircraft and helicopters. GTLKE Group was responsible for 41 per cent of the Group's revenues for the nine-month period ended 30 September 2019.

As of the date of this Prospectus, GTLKE leases and manages a fleet of 67 aircraft:

<b>Aircraft</b>	<b>Quantity</b>
Boeing 737-800	13
Airbus A321-200	7
Airbus A320-214	12
Airbus A321-211	5
Airbus A330-200	1
Airbus A330-300	1
Boeing 777-300ER	6
Airbus A319-111	9
CRJ200LR	2
Airbus A319-112	3
Boeing 747-83QF	1
Airbus A220-300	6
CL600-2B19	1
<b>Total</b>	<b>67</b>

The average age of the aircraft leased by GTLKE is 7.6 years and the average lease term is 5.2 years. Three aircraft leased by GTLKE are on finance lease terms and the remainder are leased and managed under operating lease agreements. Acting through GTLKE, the Group's client base includes PJSC "Aeroflot", "Rossiya Airlines" JSC, JSC "Aurora Airlines", JSC "Yamal Airlines", SIA "Smartlynx Airlines" (Latvia), Blue Square Aviation Group Malta Ltd (Malta), Alia-Royal Jordanian Airline PLC (Hashemite Kingdom of Jordan), GÜNEŞ EKSPRES HAVACILIK A.Ş. d/b/a SUN EXPRESS (Turkey), SunExpress Deutschland GmbH (Germany), easyJet plc and Silk Way Airlines, though the Aeroflot group accounts for nearly 65 per cent of GTLKE's business in the aviation segment.

GTLKE gained access to funding from the Chinese capital markets in 2013-2016 to fund its commercial aviation leasing operations on behalf of the Group. Industrial and Commercial Bank of China provided long-term funding to purchase a number of Airbus and Boeing aircraft and transfer them to subsidiaries of GTLKE as finance lessees via its leasing subsidiary, ICBCCL. The availability

of long-term funding issued on favourable conditions and GTLKE's expertise in fleet management allowed it to tailor an attractive lease product for PJSC "Aeroflot" by further transferring the aircraft acquired from ICBCL to them under operating lease agreements. The structure of the leases allows GTLKE to effectively manage the asset-related risks by collecting appropriate maintenance reserves while such a financing structure should make it possible to purchase the aircraft from ICBCL below the future market price by exercising the purchase option embedded in the finance lease from ICBCL.

In 2016, GTLKE expanded its portfolio with PJSC "Aeroflot" by leasing out seven new Airbus A320-214 aircraft. The purchase was financed by CMBFL.

In 2017, GTLKE acquired an Irish aircraft operating leasing company from the Credit Bank of Moscow (CBM), CBM Ireland Limited. The company owns six Boeing B737-800 aircraft which are leased to Globus LLC. In the same year, GTLKE further diversified its portfolio internationally with the addition of six Airbus A319 aircraft on lease to easyJet.

In March 2018, GTLKE entered into a contract to purchase six new Airbus A220 aircraft in 2019. As at the date of this Prospectus, these aircraft are being actively marketed for lease.

In November 2018, GTLKE entered into a USD 340 million refinancing debt facility secured by a portfolio of 14 aircraft. The portfolio includes five Airbus A321-200 aircraft, six Boeing B737-800 aircraft and three Airbus A319 aircraft, leased to Aeroflot and a number of other clients. PK AirFinance, a GECAS company, was the mandated lead arranger, agent and security trustee on the transaction and provided the financing together with Credit Agricole CIB, acting as co-arranger of the loans.

In December 2018, GTLKE entered into a loan agreement with Deep Sky Leasing Fourteen Limited with an option to purchase the company. The company owns one Boeing 777-300ER aircraft on lease to PJSC "Aeroflot".

In March 2019, the Group obtained a USD 182.7 million facility from a major Chinese lessor in order to refinance five Airbus A320-214 on lease to PJSC "Aeroflot" which was structured as a sale and finance lease-back transaction.

In March 2019, GTLKE entered into a contract to acquire an Irish aircraft operating leasing company, Trecastle Aviation Leasing Ltd, which owns two Boeing B777-300ER aircraft leased to PJSC "Aeroflot".

In June 2019, GTLKE refinanced three 2015 vintage Boeing 777-300ER aircraft, all subject to long-term leases with PJSC "Aeroflot". A USD 265 million facility was underwritten by DVB Bank SE, PK AirFinance, Credit Agricole CIB, The Korea Development Bank and NEC Capital Solutions Limited.

In September 2019, GTLKE delivered two Boeing 737-700 aircraft to their new owner JSC "Aircompany SCAT" following the execution of the Purchase Option under the finance lease agreements.

## **Rail Transportation**

The largest percentage share, being 58.4 per cent of the Group's net investment in leases as at 30 September 2019, was attributable to railway transportation services. As at 30 September 2019, this sector comprised 36.1 per cent of the Group's aggregate lease portfolio (gross of impairment allowance), as compared to 36.8 per cent as at 30 September 2018. The size of the railroad transport lease portfolio was RUB 180,555 million as at 30 September 2019. As at 31 December 2019, the Group's railcar fleet exceeded 107,000 contracted railcars, of which more than 72,000 units were

leased to various clients. The Group's aggregate exposure to this sector currently relates to the finance leasing of freight rolling stock (including gondola cars, tank cars, covered goods wagons, flat wagons and grain hoppers). According to Expert RA, as at 31 December 2018, the Group ranked first by new business volume in the rail transportation segment and the same among rolling stock leasing companies in Russia in terms of the leasing portfolio volume, with a market share of 31.4 per cent and 29.6 per cent, respectively. Although STLC's market share in the rail transportation segment by new business volume decreased to 13.8 per cent in the nine-month period ending 30 September 2019, the Group remained the leader by the size of railway leasing portfolio with a market share of 29.8 per cent, as at 30 September 2019, according to Expert RA.

While STLC does not have any non-commercial leasing arrangements in this segment, a non-commercial passenger rolling stock leasing programme is being developed with the Russian Government with a total expected investment over a 15-year period of RUB 150 billion. As at 31 December 2019, the Group leased 30 commuter electric trains to PJSC "Central EPC" under the programme of finance leasing of passenger rolling stock for local commuter services. One commuter electric train and eight passenger railcars were also leased by the Group to two other regional passenger companies, JSC "Volgo-Vyatskaya EPC" and JSC "Sverdlovskaya EC" respectively, as at 31 December 2019.

On 17 June 2016, a strategic partnership agreement was signed between STLC and Russian Railways (the **Cooperation Agreement**). The Cooperation Agreement contemplates, *inter alia*, that STLC and Russian Railways shall co-operate in the following areas: (i) renewing passenger rolling stock fleet (local trains); (ii) developing high-speed and ultra-high-speed passenger rail projects; (iii) developing locomotive fleet renewal projects; and (iv) implementing innovative solutions in the rail transportation industry.

The Group's current significant lessees of rail rolling stock include Modum-Trans, TGK, Rail 1520 Service, First Industrial Operator, SG-Trans and Central EPC:

- *Modum-Trans*: Modum-Trans is one of the leading Russian independent transportation companies in the rail freight segment with a diversified fleet of approximately 75,000 freight railcars, including railway tankers, gondola cars and timber platforms. Modum-Trans is the leading operator of innovative railcars fleet. As at 31 December 2019, the Group leased approximately 35,000 railcars to Modum-Trans.
- *TGK*: TGK is an independent transportation company established in 2010 with the focus on tube strips and large diameter pipes transportation services. The company's fleet exceeds 13,200 railcars, including platform cars and gondola cars. As at 31 December 2019, the Group leased approximately 55,650 freight wagons to TGK.
- *Rail 1520 Service*: LLC "Rail1520 Service" was established in 2012 and is a part of United Wagon Company Group. As at 31 December 2019, the Group leased approximately 5,500 innovative gondola cars to Rail1520 Service.
- *First Industrial Operator*: LLC "Perviy Promyshlenniy Operator" (First Industrial Operator) is an independent transportation company which started its operations in October 2018. The company's fleet amounts to approximately 6,000 railcars, including 4,500 railcars leased by the Group. This fleet was initially leased out by STLC to En+ Logistics (a part of En+ Group PLC), which assigned the leases to LLC "Perviy Promyshlenniy Operator".
- *SG-Trans*: SG-Trans is one of the largest Russian operators focusing on railroad transportation of oil, gas and petrochemicals, with a fleet of approximately 15,000 freight railcars and tank containers. As at 31 December 2019, the Group leased approximately 2,100 gondola cars and railway tankers to SG-Trans.

- *Central EPC*: PJSC “Central exurban passenger company” is the biggest railway commuter operator in Russia, providing passenger transportation services in 11 regions of Russia and with a market share in commuter railway transportation of 63.7 per cent. The company accounts for more than 90 per cent of the commuter services in the Moscow transportation hub. As at 31 December 2019, the Group leased 30 commuter electric trains to Central EPC under the programme of finance leasing of passenger rolling stock for local commuter services.

STLC operates the Group’s rail rolling stock business and manages approximately 6 per cent of the total freight stock fleet in Russia as at 31 December 2019. Rail rolling stock is generally considered to be a safer asset than other types of leased assets as, given its nature and the rail system on which it is operated, it is not considered to be at great risk of theft or misappropriation. In addition, it is subject to a strict centralised monitoring system that enables a unit of rolling stock to be precisely located at any time. However, due to a change in market conditions over the course of 2014 and 2015, including an excess of railcars in the railway system, adverse macro-economic conditions in Russia and a drop in cargo volumes, the Group’s pricing models and approach to leasing had to adjust in relation to the use of such railcars. The Group has had to renegotiate finance leases relating to approximately RUB 13 billion in book value (after renegotiation and taking into account accumulated impairment allowances) of railcars leased out by the Group into operating leases in 2015 where the price for the leased railcars was below the rate on STLC’s finance lease. In such circumstances the Group renegotiated the existing finance lease with the existing lessee (or another lessee, in case the existing lessee is underperforming or shows deteriorating creditworthiness) by adjusting the lease rate to market levels that excluded the lessee’s option to purchase the relevant assets and as such converted such lease to an operating lease. The Group has built up and sustains in-house expertise in monitoring and maintaining railcars needed for such operating leases and believes the strategy should allow the Group to benefit from the expected recovery of market values of its rail rolling stock. An operating lease also gives the Group more flexibility in re-pricing a rolling stock transaction which increases the Group’s operational efficiency in volatile market conditions. Following the gradual recovery of the railway segment from 2016, the Group has resumed its investments in the purchase of railway rolling stock assets to be leased out on finance lease terms, including transactions with First Industrial Operator, Modum-Trans and Central EPC. The Group is not currently seeking any new business in this segment in the form of operating leases other than dealing with previously repossessed assets in order to ensure the optimum balance between risk level and profitability under the current market conditions.

### **Maritime Transportation**

Since 2016 the Group has been the dominant player in the maritime segment of the Russian leasing market. As at 31 December 2018, the Group held a leading position in the maritime transportation leasing sector by new business volume with a market share of 74 per cent and in terms of lease portfolio size with a market share of 56 per cent. As at 30 September 2019, the Group’s market share in the maritime transportation leasing sector amounted to 47 per cent by new business volume and 53 per cent in terms of the size of lease portfolio, according to Expert RA.

As at 30 September 2019, maritime transportation comprised RUB 51.08 billion, being 10.2 per cent of the Group’s aggregate lease portfolio (gross of impairment allowance), compared to RUB 32.2 billion and 8.9 per cent as at 30 September 2018. As at 30 September 2019, the maritime portfolio was 17.1 per cent of the Group’s aggregate net investment in leases, as compared to 16.5 per cent as at 30 September 2018. STLC’s business activities in this sector continue to grow in absolute terms in line with the Group’s strategy.

A key component of the Russian economy is oil and gas condensate. Oil and gas producers and refiners require large tankers and super-tankers to transport such products from the Russian Federation. The Group’s maritime leasing business also includes motorboats, yachts, passenger liners,

small passenger craft, cargo and passenger vessels as well as specialised vessels such as tankers. The Group had a 23 per cent share of the maritime leasing market in Russia in terms of new business volume in 2016, which increased to a 84 per cent share in the segment in both 2017 and 2018. The Group signed its first lease agreement in this sector in 2013. Since then the Group's fleet of ships has increased to 83 units of different types of water craft, including 27 vessels under construction as at 31 December 2018. As of 31 December 2019, the Group's contracted maritime fleet has further increased to 138 vessels with 54 units under construction. Between 2015 and 2018 STLC concluded lease agreements for the procurement of 61 units of Russian-made vessels (including dry cargo ships, oil carriers and tankers). As at the date of this Prospectus, all of the Group's projects in this segment are structured as finance leases.

The Group's material shipping lessees include Balt-Flot Tanker (BF Tanker LLC) which operates a fleet of multi-product carrier type vessels, designed for the transport of petroleum products as well as dry bulk and general-purpose cargo, Rosnefteflot and Pola Group. In 2015 and 2016, the Group concluded delivery contracts for the lease of 10 river-sea class multipurpose RST54 and RST27 project vessels for BF Tanker LLC with the purpose of developing the domestic ship building industry and stimulating the process of import substitution. In 2017, STLC signed a number of delivery contracts, including a contract for the lease of eight multi-purpose dry cargo RSD 32 M project vessels for Dimar Enterprises Ltd and a contract for delivery of 10 project ROB20 non-self-propelled loading barges for Pola Group. Also, lease agreements totalling USD 450.7 million for the lease of five Aframax 5 tankers powered by liquefied natural gas for JSC "Rosnefteflot" (a subsidiary of Rosneft Oil Company) were concluded in 2017 and became effective in 2018. The 114,000 DWT vessels will be built by Zvezda jointly with Hyundai Heavy Industries (Republic of Korea) and are scheduled to enter service to enable export shipments of crude oil and oil products from 2021. In 2018 finance lease agreements were signed with Avonburg Finance Limited for two cargo vessels for Pola and a contract for lease of four self-propelled dry cargo vessels for Pola Rise. In total, the Group's fleet consists of 72 dry cargo vessels, 21 bulk oil tankers, 14 barges, eight tugboats, 13 passenger and freight ferries, six combined bulk carriers, two rescue vessels and two floating derricks.

STLC plans to further develop and strengthen its position in this sector using all available instruments of state support and also to undertake non-commercial leasing in this sector. In 2014 and 2015, STLC successfully tailored a leasing product to its clients which was eligible for the receipt of governmental grants under Decree 383 of the Government of the Russian Federation dated 22 May 2008. The lessee eligible for this form of state support is entitled to receive a grant to compensate its leasing expenses. This makes the lease terms more favourable for the lessee while at the same time maintaining a favourable lease structure in terms of finance debt redemption profile from the lessor's perspective. Also, as a part of the implementation of the Federal Programme for the development of water transport leasing and ferry services in the Russian Far East and Trans-Baikal regions under the orders of the Ministry of Transport of the Russian Federation, STLC is in the process of developing a ferry line in the Sakhalin Region at the Vanino-Kholmsk line and constructing two new ferries to replace the existing fleet. The programme is to be funded by a total investment of approximately RUB 10 billion, of which RUB 5.5 billion has been allocated under the Federal Special-Purpose Programme and RUB 4.3 billion has been financed by a 25-year loan from the Far East Development Fund (a 100 per cent subsidiary of the State Corporation "Bank for Development and Foreign Economic Affairs (*Vnesheconombank*)" (**VEB**)).

#### ***Development of the leasing of Russian-built dry cargo ships and high-speed passenger vessels***

In December 2018 budget funding was allocated to STLC in the form of budgetary subsidies in the total amount of RUB 5,900 million for the acquisition of 13 vessels (11 RSD59 project dry cargo vessels and two "Comet 120M" type high-speed passenger vessels), to be further leased on to national shipping companies. The programme is being implemented within the sub-programme "Sea and River Transport" of the "Development of Russia's Transport System" Federal Targeted Programme. On 29

March 2019, the subsidy of RUB 5,900 million was received by STLC and advanced to Krasnoye Sormovo Shipyard and Shipbuilding Plant “Vympel” immediately upon receipt under the contracts signed as part of the implementation of this programme. The vessels under this programme are expected to be delivered in 2021. In December 2019, STLC received additional budgetary subsidies in the amount of RUB 5,655 million for the acquisition of 15 vessels of various types, including four RSD59 project dry cargo vessels, four “Valdai” river passenger vessels and four dredgers. These funds were allocated to STLC within the “State Support” sub-programme of the “Development of shipbuilding and shelf oilfield development” federal programme. The vessels under this programme will be delivered in the period from 2022 to 2024. Furthermore, the federal budget of the Russian Federation for 2020 and the projected period of 2021 and 2022 also makes provisions for additional budgetary subsidies of RUB 5 billion to STLC in 2021 under this programme.

### ***Development of the construction project for Lavna seaport and coal terminal***

The Group is also involved in large port infrastructure projects as part of the Maritime transportation leasing segment, for example with the construction of a trading seaport in the Murmansk region called “Morskoy Port Lavna”. This strategic project encompasses the development of a modern, high-tech coal handling terminal and the construction of new port facilities on the western shore of Kola Bay with a capacity of up to 18 million tonnes per year. The ice-free port of Murmansk has direct access to the Barents Sea and can handle vessels with a capacity ranging between 20,000 and 150,000 DWT. The completion of the project is a key part of the Murmansk transportation hub development policy, it complies with the Transport Strategy of the Russian Federation until 2030 and is included in the “Development of Russia’s Transport System in 2010-2020” Federal Targeted Programme. The project also complies with the “Strategy for the development of railway transport” and the “Comprehensive plan for the modernisation and expansion of the main transport infrastructure” and is supported by both the Ministry of Transport of the Russian Federation and the Murmansk regional government.

Under Government Decree No. 2111-p dated 1 October 2018 the Russian Government ordered the signing of a concession agreement for the financing, creation and operation of infrastructure facilities at the port of Murmansk, including the construction of the Lavna seaport. In November 2018, the Federal Marine and River Transport Agency (*Rosmorrechflot*) and STLC signed a concession agreement implementing the construction project for the Lavna coal handling terminal in Murmansk. In June 2019, Gazprombank and Lavna LLC signed a number of loan facility agreements for the total amount of RUB 32.5 billion to finance CAPEX and the construction and operation of the Murmansk seaport infrastructure facilities. The concession mechanism provides for a concessioner to build the Lavna coal handling terminal with a capacity of 18 million tonnes with Rosmorrechflot to ensure transport accessibility and to complete Phase I of the related railway infrastructure construction. In May 2018, a contract between STLC, Lavna LLC and ThyssenKrupp & LNK Industries was signed for equipment supply in respect of the project.

Phase I of the coal handling terminal, with a capacity of 9 million tonnes, is expected to start operation in December 2020, followed by the implementation of Phase II by December 2021. The parties are also considering the implementation of Phase III of the construction with the same capacity (9 million tonnes by 2023) as well as the construction of a terminal for transshipment of mineral fertilisers (with a capacity of 6 million tonnes per year).

Lavna LLC holds the necessary planning permission and construction documentation in respect of the Lavna development project. In April 2019, the Group sold a 95 per cent share in Lavna LLC (decreasing its ownership interest to 5 per cent) thereby engaging private investors for the project. The Group retains control over the operations and business decisions of Lavna LLC on the basis of a shareholders’ agreement and remains committed to the project considering it to be strategic.

As of the date of this Prospectus, preconstruction, grading and levelling works are underway at the site with 95 per cent degree of completion. The construction of the 150 kW electrical substation, the



start-up and the commissioning works are complete. The manufacturing of the production equipment by ThyssenKrupp & LNK Industries consortium is carried out as per agreed schedule.

### ***GTLK Global's Maritime Transportation operations***

As of the date of this Prospectus, GTLKE has 13 dry cargo vessels, two floating cranes, one tugboat and one oil tanker in its portfolio. In January and February 2018, GTLKE's exposure to multi-purpose dry cargo ships was reduced when a former lessee exercised its purchase option to buy 10 vessels. In January 2018, GTLKE acquired two bulk carriers. All of GTLKE's bulk carriers are registered in Malta and chartered to Avonburg Finance Limited. GTLKE's oil tanker is registered in Malta and sails under the state flag of the Russian Federation. This vessel is chartered to Elisburg Shipping Limited.

In the first half of 2019, GTLK Asia Limited, a Hong Kong-based subsidiary of STLC, entered into a sale and leaseback agreement with Havila Kystruten (Norway). The transaction involves the construction and purchase of two newly built hybrid LNG/battery-powered coastal cruise ships built to comply with the new zero emissions sailing policy in Norway's world heritage fjords. The vessels will operate on the Norwegian Coastal Route between Bergen and Kirkenes and will partially benefit from public service revenue contributions from the Norwegian Government. At present, the ships are under construction at Tersan shipyard (Turkey) and delivery is expected in 2021. As at the date of this Prospectus, GTLK Asia Limited also has four handysize bulk carriers and two ice-class bulk carriers in its portfolio.

### **Infrastructure**

One of the Russian Government's aims has been the implementation of a large-scale transportation infrastructure investment programme to increase demand for domestic industry and attract private sector investment and thus boost the economy and facilitate growth. The Group is the state's 'launching pad' for initiating such large-scale infrastructure projects and to attract private investment to the transport industry and has been a driving force and sponsor for complex investment projects in the area of transportation infrastructure and related areas. Accordingly, the Group's management views this as one of its key strategic sectors to focus on in order to ensure the Group's continued growth.

An example of the Group operating on a large infrastructure project is the construction of the TLC Yuzhnouralsky container terminal. The TLC Yuzhnouralsky container terminal, which was commenced in 2013, is the largest infrastructure facility in the Eurasian transport corridor and represents a highly strategic site for the development of the Silk Road Economic Belt. Cargo deliveries from this terminal will be made directly by rail and road. The centre's total area is 180 hectares with 82,000 m<sup>2</sup> of Class A warehouse space and it is designed to process 2.5 million tonnes of freight traffic per year or simultaneously store up to 4,000 containers per day. The first stage of the project began operations in May 2015.

In line with the order of the Russian Government No.767 dated 13 May 2013 regulating the area of gas motor fuel and natural gas motor fuel, STLC plans to implement non-commercial leasing programmes in Russian regions with developed or developing gas motor fuel infrastructure. The Group is one of the leading providers of natural gas vehicles (NGV) and electric passenger transport leasing in Russia, and since 2012 has been implementing transport energy efficiency programmes in the Russian regions to renovate, expand and modernise the passenger transportation fleet, improve safety and efficiency, diminish environmental impact and develop NGV fuel infrastructure. In January 2015, the Russian Government provided financing (a RUB 4.94 billion increase of STLC's charter capital) aimed at implementing this programme in Crimea between 2015 and 2020 (the **Crimean Programme**). In accordance with the order of the Government of the Russian Federation, the Crimean Programme is to be implemented through direct leasing arrangements between STLC and

Crimean transportation providers with contracts entered into on a preferential basis as compared to market interest rates. STLC also makes deliveries in the Tula, Chelyabinsk, Sverdlovsk and Samara regions, Yamalo-Nenets Autonomous Okrug and Sevastopol.

### **Ferry transportation**

A major infrastructure project managed by STLC is the development of the Vanino-Kholmsk ferry transportation line. A part of the global project of the Corporation for Development of Sakhalin Region, modernisation of the aforementioned ferry line is of strategic importance for the transport accessibility of Sakhalin Island. In December 2016, STLC received a capital contribution of RUB 3,565.66 million as the first stage of the programme implementation. The funds were applied towards an advance payment for construction of two new auto-railway ferries. A further capital contribution of RUB 1,978.34 million under the programme was received in March 2017. In December 2017, STLC received a 25-year loan in the amount of RUB 4,328 million from the Far East Development Fund, a 100 per cent subsidiary of VEB facilitating the inflow of investments to the Far East and Baikal regions of the Russian Federation by providing preferential financing and long-term financing of prioritised investment projects in various industries to finance this programme. The construction and delivery of the two ferries is scheduled for 2022.

### **Other**

The Group is also active in other leasing sectors, including passenger transportation, road construction equipment and commercial vehicles. As at 30 September 2019, none of these sectors represented a material proportion of the Group's aggregate net investment in leases or aggregate lease portfolio.

### **Leasing operations of the Group**

Any leasing operations of the Group (regardless of them being finance or operating leases) are carried out in accordance with Group-level standards on requirements as to control and preservation of assets and monitoring of lessees. The Group believes that the main advantage of leasing over other forms of lending is the ability for the Group to reclaim the asset on default as it retains legal and beneficial title, rather than relying exclusively on taking collateral, pledges, guarantees or other security interests over the asset (though depending on the credit profile of a prospective lessee, such additional credit enhancement measures may also be taken). As such, whether the defaulting lessee is in bankruptcy or otherwise, the Group does not rank as a creditor in the same way as a lending bank would (save as to any unpaid interest due under a finance lease or unpaid payments due under an operating lease), as it is entitled to take back possession of the asset it legally owns without any requirement for a court order.

In general, classification of a lease as a financial or an operational one mostly depends on the structure and the economics of the transaction.

### **VAT**

#### *Russian Federation*

VAT is payable by STLC at the rate of 20 per cent on all lease payments received by it under its finance lease agreements. Such VAT can be set off against the amounts paid by STLC to counterparties at the rate of 20 per cent, on a quarterly basis. As an alternative, STLC may request that the Russian tax authorities refund VAT eligible for off-setting by having such amount either: (i) offset against future taxes due by STLC; or (ii) refunded to the settlement account of STLC. STLC makes a decision on a regular basis as to which of these alternatives it pursues, taking into account potential delays in the refunding of VAT (as the Russian tax authorities will need to analyse and

confirm the request) and whether there are amounts due to counterparties on which the refundable VAT can instead be offset.

### *Ireland*

Ireland generally imposes VAT on the supply of goods and services. Payments by a lessee to any aircraft owning Irish tax resident member of the GTLKE Group will not be subject to Irish VAT in any case where the leased aircraft are used or to be used by a transport undertaking operating for reward chiefly on international routes or where the aircraft is or is to be effectively used and enjoyed wholly outside the EU.

### **Finance Leasing**

Under the Group's typical finance lease agreements, a prospective lessee identifies the asset to be financed and the supplier, with the agreement of STLC. The asset is then purchased by the Group and leased to the lessee for a pre-determined period. While on commencement of the lease the leased asset is physically transferred to the lessee, legal and beneficial title to the leased asset remains with the Group throughout the life of the lease. Risks related to the leased property such as damage and theft are insured. On expiry of the lease term, after the final payment has been made, the lessee has the option (which it is not obliged to exercise) to buy the asset from the Group for a residual sum. If the lessee does not opt to buy the asset, the Group may sell the asset, retaining the sum exceeding the residual value as additional income. The Group provides two types of finance lease products to its customers: non-commercial leases and commercial leases. There are no differences in internal procedures of risk assessment and decision making between these two types of leases; a unified risk management policy is applied to all the leases regardless of their type.

#### *Non-commercial finance leases*

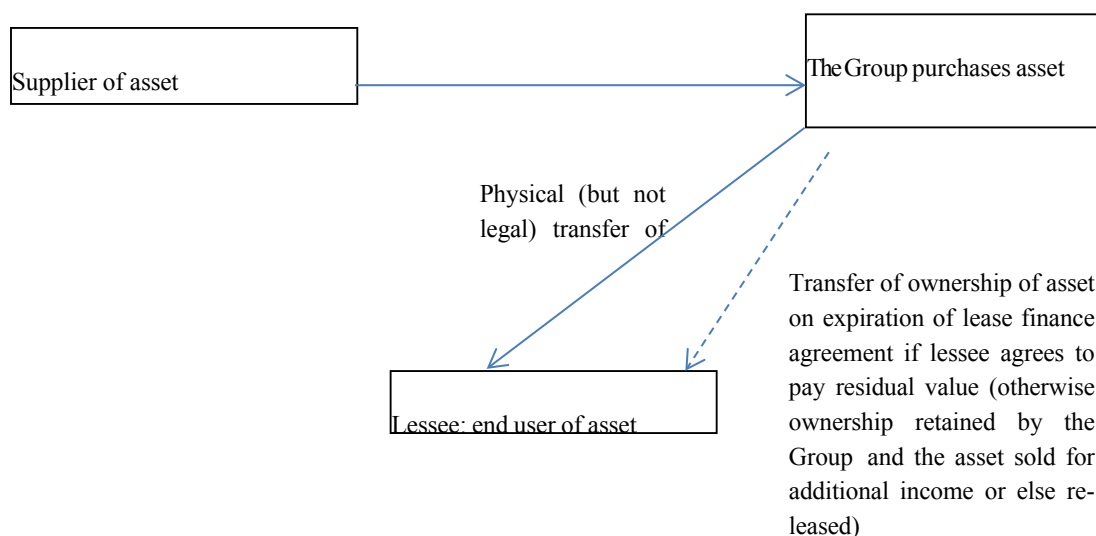
Non-commercial finance leases are a specific lease product under which finance leases are issued at favourable interest rates as they are funded by the charter capital of the Group. The Russian Government programmes pursuant to which such non-commercial finance leases are made contain certain requirements relating to lessees eligible for such programmes. The Group's non-commercial finance lease operations comprise: (i) regional programmes to improve energy efficiency in the transport sector; (ii) finance leasing of passenger rolling stock for local commuter services; (iii) a programme for the development of water transport leasing and ferry services; (iv) a programme for the support of the national helicopter industry; (v) a programme for the development of regional small aircraft; and (vi) a programme for the development of the leasing of domestically built dry cargo ships and high-speed passenger vessels.

#### *Commercial finance leases*

Commercial finance leases are a standard finance lease programme under which finance leases are issued on market terms. The Group's commercial finance lease programme has no specific requirements to lessees except that they must meet the Group's requirements on their financial position and creditworthiness. There are no specific requirements related to the type of leased assets. These types of finance lease agreements are funded by the Group with borrowings from third parties. The lease term under commercial finance leases normally varies from three to 10 years. The initial payment amount varies from 5 per cent to 30 per cent of the initial price of leased asset. Lease payments are normally made on a monthly basis.

## Structure

The following diagram illustrates a typical finance leasing transaction:



Subleasing of the asset by the lessee to a third party may be permitted under the terms of the finance lease agreement. If it is permitted, it will be subject to the Group's prior written consent (the Group reviews any such requests on a case-by-case basis, including undertaking additional credit checks on the potential sub-lessee, and may require guarantees, sureties or pledges before it gives such consent). Prior consent means that the Group can ensure that the sublease arrangements do not alter its risk profile, or the insurance the Group has put in place in relation to the asset (or, in the case of aircraft and certain other assets, the insurance that the lessee has arranged as part of the finance lease arrangements and its legal obligations as an aircraft operator) (see "*Insurance*" below).

## Advantages of Finance Leasing

Leasing transactions in the Russian Federation offer various advantages to the lessee as compared to secured borrowings, including:

- lease payments are typically tax-deductible in full and therefore decrease a lessee's income tax base;
- assets under a finance lease agreement may be depreciated in a way that is more favourable to the lessee when compared to assets purchased outright by the lessee. Depreciation of leased assets may be accelerated by up to three times, and as property tax in the Russian Federation is payable on the value of the asset less depreciation, the lessee is liable to pay less property tax. Accelerated depreciation also gives rise to additional income tax benefits as it boosts tax-deductible depreciation expenses. Accelerated depreciation is, however, not mandatory, and the Group can use depreciation in other ways as part of the structuring of its finance lease agreements, to achieve maximum tax efficiency for the lessee;
- since a lease is not a loan, any borrowing limit contained in the lessee's charter or any loan agreement to which it is party, will not affect the lessee's ability to enter into a lease, whereas a borrowing limit may affect the lessee's ability to enter into a loan. Finance leasing can also provide an alternative, cheaper source of funding for the lessee to conventional bank lending.

### ***Lease Negotiation and Asset Procurement***

In negotiations on a typical finance lease transaction, the supplier of the asset to be leased, together with the price, technical parameters and key characteristics are proposed by the lessee. If the asset is still to be constructed and contractor services are to be used in connection with the asset, the price, scope of service and other parameters are also proposed by the lessee. The Group then carries out an analysis of the lessee's proposed terms, based on the Group's internal procurement and credit analysis procedures and applicable law. In respect of certain significant transactions, specific approval from the Ministry of Transport may also be required. The Group then proposes amendments to the terms proposed by the lessee as needed, and sets out the Group's proposal for finance lease arrangements (including the tenor, interest payments and residual payment to be made by the lessee to purchase the asset on expiration of the finance lease).

Following agreement on the proposed transaction terms between the Group and lessee, the Group works with the asset supplier and/or contractors and the lessee in order to prepare and agree transaction documentation based on the agreed terms of the transaction. This may include payment guarantees, performance guarantees and surety or pledges by third parties in favour of the Group (see "*Terms of Finance Lease Agreements*" below). Once the transaction documentation has been completed, the Group purchases the asset from the supplier and/or pays the contractor and ensures that the asset, once constructed if not already in existence, is supplied to the lessee.

### ***Terms of Finance Lease Agreements***

As described above, accelerated depreciation is often key to determining the length of a finance lease agreement. The payment schedule varies from lessee to lessee. The leasing payments are made up of principal, interest, margin and taxes. The interest rate payable by the lessee will depend on the margin, which, in turn, is dependent on the Group's expenses incurred in connection with the finance lease agreement and the credit quality of the lessee. Often, finance leases entered into by the Group will also include provisions for payment guarantees, performance guarantees and sureties or pledges by third parties in favour of the Group.

The majority of assets purchased by the Group must be prepaid in full before the supplier will effect delivery. As such, in order to ensure that it is covered against any rise in the price of the asset that may occur between initial prepayment and delivery, the Group always retains the right to recalculate the payments that the lessee will be obliged to pay under the lease until the leased asset is actually delivered to the lessee.

The interest rate is determined on the basis of the particular lessee rather than the sector in which the lessee operates. Interest may be fixed rate or three-month or six-month LIBOR floating rate. All floating rate finance lease agreements are reviewed regularly by the Group's Credit Risk Department, and the interest rate may be changed once per quarter in accordance with Russian leasing laws. For commercial leasing and non-commercial leasing not financed through the Russian Federation budget, the Group also retains its right to review fixed rates under certain circumstances: although the Group typically secures financing to meet its obligations under a finance lease ahead of signing the agreement, the typical finance lease includes provisions to unilaterally amend the interest rate within agreed parameters and subject to certain conditions if, for example, the Group's cost of financing increases or interest rates or market conditions change, in order to protect its margin on such lease agreement.

In case of delay in delivery of leased assets by the seller to the lessee, under standard finance lease agreements concluded by STLC (as a Russian entity), the term of delivery is extended and the timetable for lease payments is adjusted accordingly. Under standard finance lease agreements concluded by foreign entities of the Group, the term of delivery is extended however, the timetable for

lease payments does not change and is not adjusted in case of late delivery. Any fines for late delivery are considered by STLC on a case-by-case basis.

The development of the Russian leasing market in recent years has led to qualitative changes in the characteristics of leasing transactions, including increased sophistication in deal structuring and longer maturities. See “*Selected Financial Review – Analysis of Financial Condition as at 30 September 2019, 31 December 2018 and 31 December 2017 – Assets – Net investment in leases*” for a breakdown of the maturity profile of the Group’s gross and net investment in leases as at 31 December 2018, 2017 and 2016.

The Group maintains an actively managed capital base to cover risks inherent in its business. Collateral and other credit enhancements may be sought by the Group in respect of a particular lessee dependent on the credit risk associated with such lessee. See “*Risk Management – Credit Risk – Collateral and other credit enhancements*”.

### **Defaults**

On a default of a finance lease, the Group would expect to take possession of the asset and sell the asset at the best price achievable (and retain the proceeds of such sale), so as to cover its costs and all outstanding payments due to it under the relevant finance lease agreement, or, alternatively (to the extent that the Group has an alternative customer that would satisfy its credit procedures and is willing to lease such asset) to re-lease it. Since the asset is legally and beneficially owned by the Group until all lease payments due under the finance lease agreement have been paid by the lessee, all amounts recovered on the sale of the asset can be retained by the Group. However, some assets are less liquid than others (such as bespoke industrial equipment designed for a specific lessee), which may make it difficult for the Group to sell or re-lease such asset (see “*Risk Factors – Risks Related To The Group’S Business As A Leasing Company – If A Lessee Defaults On Its Lease, The Group Could Incur Losses*”).

### **Operating Leases**

Operating leases are an increasingly important part of the Group’s portfolio. In these contracts, which have a length of one to 12 years, the leased asset remains on the balance sheet of the Group whilst the utilisation risk is transferred to the lessee and the Group retains the title and exposure to the residual value at the end of the lease. Given these characteristics, the product has proven popular with clients who wish to preserve their debt capacity and equity capital while guaranteeing the availability of assets essential for their needs. Assets are selected by the lessees but independent confirmation of such asset’s price is sought to ensure it is in line with the market. Over the past 20 years, the world’s airlines have increasingly turned to operating leases to meet their aircraft needs. Substantially all of the Group’s operating lease contracts have daily lease rates indexed to USD.

The Group’s operating leases provide clients with:

- the ability to lock in a significant portion of their costs over an extended period, thereby avoiding volatility from the short term lease market;
- flexible management of their fleet;
- ability to secure capacity whilst preserving capital for investment in core activities; and
- access to the newest assets in the market, for example the Sukhoi Superjet 100.

The Group’s current operating leases have initial terms ranging in length from approximately one year to 12 years. By varying the lease terms, the Group mitigates the effects of changes in cyclical market

conditions at the time the asset becomes eligible for re-lease. In periods of strong demand, the Group seeks to enter into medium and long-term leases to lock in the generally higher market lease rates during those periods, while in periods of low demand the Group seeks to enter into short-term leases to mitigate the effects of the generally lower market lease rates during those periods.

### ***Structure***

The Group uses operating lease transactions both as a measure to deal with underperforming or defaulting finance lease assets, especially railcars (see “*Business – Rail Transportation*”), and to structure new leasing projects for its clients. STLC does impose, however, some important limitations on its new business structured as operating leases: (i) the leased asset must be a first-class asset which is capable of retaining its value over longer periods of time and for which there are established mechanisms to monitor and/or control its value (for example, bluebooks, maintenance reserve models, aviation registry requirements and inspections etc. for aircraft assets); (ii) STLC only purchases new assets to lease out under operating leases and underwrites such leases to first-class clients; and (iii) the initial term of lease, during which the lease is non-cancellable, must cover a significant part of the asset's lifetime.

### ***Commercial and non-commercial operating leases***

The vast majority of the Group's operating leases are entered into on a commercial basis, on market terms. As at the date of this Prospectus, the Sukhoi Superjet 100 programme represents the Group's sole non-commercial operating lease arrangement.

### ***Remarketing and Extension of Lease Contracts***

Where possible, the Group seeks to have its current clients extend their operating lease contracts at market rates as they mature. The Group's lessees must provide the Group with 60 days' notice to extend their lease contracts, in order to provide the Group's management with enough time to examine alternative deployment of the asset, if needed. If a lessee fails to provide the Group with such notice, the operating lease will automatically expire at the end of the term, and the lessee will be required to return the asset pursuant to the lease terms. The Group's operating leases contain detailed provisions regarding the required condition of the asset and its components upon redelivery at the end of the operating lease term. In the case of returning an asset to the Group, the client is obliged to compensate the Group up to 50 per cent of the tariff for delivering the asset from its current location to the Group, which creates substantial switching costs for the Group's clients – an additional incentive for them to renew their leases.

The quality of the Group's assets as well as its portfolio of long-term operating leases has enabled the Group to maintain high utilisation rates close to 100 per cent.

During the period in which an asset is in between leases, the Group typically performs routine inspections and maintenance necessary to place the asset in the required condition for delivery and, in some cases, make modifications requested by the next lessee.

### ***Maintenance***

All of the Group's lessees are responsible for their maintenance costs during the lease term. Based on the credit quality of the lessee, the Group requires some lessees to pay supplemental maintenance rent to cover scheduled major component maintenance costs. If a lessee pays the supplemental maintenance rent, the Group reimburses them for their maintenance costs up to the amount of their supplemental maintenance rent payments. Under the terms of the Group's leases, at lease expiration, to the extent that a lessee has paid more supplemental maintenance rent than has been reimbursed to them for their maintenance costs, the Group retains the excess rent. In most lease contracts not

requiring the payment of supplemental rents, the lessee is required to redeliver the asset in a similar maintenance condition as when accepted under the lease. To the extent that the redelivery condition is different from the acceptance condition, there is normally an end of lease compensation adjustment for the difference at redelivery. Whether a lessee pays supplemental maintenance rent or not, the Group usually agrees to compensate a lessee for scheduled maintenance related to the prior use of the asset. For this prior use, the Group has normally received cash compensation from prior lessees of the asset, which was recognised as income at the end of the prior lease.

### ***Defaults***

On a default of an operating lease, the Group would expect to take possession of the asset and sell the asset at the best price achievable (and retain the proceeds of such sale), so as to cover its costs and all outstanding payments due to it under the relevant operating lease agreement, or, alternatively (to the extent that the Group has an alternative customer that would satisfy its credit procedures and is willing to lease such asset) to re-lease it. (See “*Risk Factors – Risks Related To The Group’S Business As A Leasing Company – If A Lessee Defaults On Its Lease, The Group Could Incur Losses*”).

### ***Enforcement and Collection Procedures***

The procedures the Group follows for the collection of overdue payments and/or seizure of a leased asset include:

- active weekly monitoring of a lessee’s account during the first month payments are overdue, in order to determine whether payment of the overdue amount has been made;
- imposition of a penalty interest rate on overdue payments, typically 0.1 per cent for STLC and 2 per cent for GTLKE of the value of the overdue payment per day until payment is made, as typically provided for in the Group’s finance lease agreements;
- procurement of a direct debit order in order for the Group to collect overdue payments from the debtor lessee’s account, as typically provided for in the Group’s lease agreements;
- attempts to procure an out-of-court settlement with the debtor lessee, usually involving the early purchase of the leased property by the lessee;
- where an out-of-court settlement is not possible, initiation of court proceedings against the debtor lessee for repossession of the leased asset and, following receipt of court order for repossession of the asset (to which the Group retains legal and beneficial ownership), use of bailiff services if needed in order to physically obtain such asset.

Where assets are located outside of the Russian Federation, such as aircraft or sea/river vessels, the Group would follow standard international procedure, such as notification of the registry at which such asset is registered and/or currently located, in order to ensure its arrest at the relevant airport or seaport, and subsequent return to the Group’s control.

### **KEY COMPETITORS**

According to Expert RA, as at 31 December 2018, more than 120 companies provided leasing services in the Russian Federation and 19 of these had lease portfolios exceeding RUB 20 billion. However, the Russian domestic leasing market in which the Group is principally active is dominated by a few large companies. According to Expert RA, the top 10 leasing companies in the Russian market (including STLC) have a combined market share of 77 per cent in terms of the size of their lease portfolio.



STLC's main competitors are major Russian financial institutions, with state ownership from both state banks and other state corporations; the Group regards Sberbank-Leasing, VTB Leasing, VEB-Leasing, Gazprombank Leasing and Transfin-M to be its key competitors.

As at 31 December 2018, the Group's Russian domestic leasing market share by volume of new business was 16.4 per cent (compared to 12.9 per cent in 2017 and 16.5 per cent in 2016), Sberbank Leasing's was 15.0 per cent, VTB Leasing's was 12.1 per cent, Europlan's was 5.6 per cent, and Alfa Leasing's was 4.9 per cent in each case according to Expert RA. As at 31 December 2018, the Group was ranked by Expert RA as the largest Russian leasing company by portfolio size overall with a market share of 21.5 per cent with Sberbank Leasing ranking at second largest (14.2 per cent), VTB Leasing ranking at third largest (13.4 per cent) and VEB-Leasing ranking at fourth largest (8.7 per cent).

According to Expert RA, as at 31 December 2018, in breakdown by segment, the Group ranked as the largest Russian leasing company by market share in the rail transportation leasing sector (with Sberbank Leasing second and VTB Leasing third); second in the air transportation leasing sector (with Sberbank Leasing first and VTB Leasing third); and first in the maritime transportation leasing sector (with Business Alliance second and MASHPROM-LEASING (ex-Goznak-Leasing) third).

According to Expert RA, the top three leasing companies in the Russian market (including the Group) had a combined market share of 37 per cent in terms of new business volume for the nine-month period ended 30 September 2019, as compared to 46 per cent for the nine-month period ended 30 September 2018. According to Expert RA, as at 30 September 2019 Sberbank, STLC, VTB Leasing, VEB-Leasing and Europlan ranked first, second, third, fourth and fifth, respectively, by volume of new business transacted, and second, first, third, fourth and seventh, respectively, by aggregate lease portfolio value in the Russian leasing market. The Group remained the largest leasing company in Russia by the size of lease portfolio as at 30 September 2019 with its lease portfolio exceeding RUB 1,029 billion (a market share of approximately 22.5 per cent), according to Expert RA.

## **INSURANCE**

The assets leased under finance and operating leases by the Group to its customers are always covered by insurance policies, the terms of which are dependent on the type of leased asset. As a rule, such insurance policies are entered into by the Group itself rather than by its customers and the Group pay the insurance premiums, which are factored into the pricing of the related finance lease agreement. The beneficiary under the insurance policy on the vast majority of the lease agreements is the Group. In relation to aircraft or certain sea/river vessels, the lessee is more commonly required to arrange comprehensive insurance, as such insurance is typically a legal requirement of the operation of such asset (especially internationally) and provided by insurers outside of the Russian Federation. The Group ensures that failure to arrange or maintain such insurance will always be an event of default under the appropriate lease agreement.

However, the Group, or its leased assets, may not carry insurance coverage at levels comparable to those customary in other countries for a company of its size and nature and, under some circumstances, its insurance coverage may prove insufficient. The same is true of many Russian companies, as the Russian insurance sector is not fully developed and insurance is not widely relied upon to manage operational risk. This is particularly the case in the leasing sector, where the concept of residual value is still relatively new and yet to be properly understood by insurance companies. The Group therefore insures its assets based on 100 per cent of the invested funds (amortised on a straight line basis) in those assets rather than on the basis of residual value or the credit profile of the lessee. STLC's insurance policy covers all and any leasing assets and its Insurance Department maintains day-to-day control and management of insurance coverage.

## **INFORMATION TECHNOLOGY**

The Group has information technology (**IT**) systems which fully support its leasing operations in the Russian Federation. The systems mainly operate on the basis of the Microsoft Windows operating system and are currently being upgraded.

To protect against unauthorised access to the Group's IT systems, the Group has put in place detailed IT security policies and operates industry standard firewalls and other IT security devices.

The Group believes that its current IT platform is sufficient to meet the needs of its business, and is comparable with peers in the Russian leasing market.

## **LITIGATION**

In the ordinary course of its business, the Group is subject to legal action and complaints. As at the date of this Prospectus the Group is not party to, or the subject of, any material litigation.

## RISK MANAGEMENT

Risk is an integral element of the Group's activities. STLC has implemented a continuous risk management process in order to control the level of risk and restrict losses resulting from financial and non-financial risks. The risk management system is based on an integrated approach of on-going identification, assessment, monitoring and control of risks accepted by the Group. The risk management policies and procedures are subject to continuous improvement and are implemented to comply with legal requirements and prudential norms, best practices and standards and the internal regulations of the Group. STLC believes that risk management is crucial to mitigating the impact of risk exposures on the Group's financial stability.

Credit risk, liquidity risk, market risk (subdivided into interest rate and currency risk) and operational risk are the principal categories of risk to which the Group is exposed.

Detailed below is a description of the risk management structure and analysis of each of the risk categories and a description of the applicable control and monitoring activities.

### **Risk Management Structure**

STLC has a defined risk management structure to help manage the Group's risks systematically. The Board of Directors performs supervisory functions, provides overall assurance over the risk management process and is ultimately responsible for identifying and controlling risks as well as for defining the overall risk management approach and for approving the risk strategies and principles.

A number of committees and departments are established to co-ordinate day-to-day risk management. Risk management on a firm-wide level is overseen by the Leasing Council which ensures the implementation of strategy, approves the risk management policy, allocates the risk management functions between the governance bodies and business units of the Group and controls their performance. The responsibilities of the Leasing Council include the approval of total risk limits by type of risk and type of business. The Leasing Council reviews risk level reports on a regular basis and reallocates the risk limits where necessary to maintain the pre-set strategic risk profile. In order to ensure the efficient operation of the risk management system, the Leasing Council delegates the risk limits to other collegial bodies, individual business units and employees.

- *The Budgeting and Economic Department* ensures the implementation of policies related to the management of structural risks of the consolidated statement of financial position, including foreign currency risk, interest rate risk and liquidity risk.
- *The Risk Management Department* performs centralised risk management tasks and is responsible for the development of risk management policies and procedures and for identification and assessment of risks. It also controls the compliance with such policies and procedures. The Risk Management Department reports directly to STLC's CEO. A separate designated unit within the Risk Management Department is responsible for the implementation of the credit policy pertaining to lease financing. Further details of the credit-decision making process are described under "*Credit Risk*" below.
- *The Treasury Department* oversees the day-to-day monitoring and management of foreign currency risk and liquidity risk within the limits of roles delegated by the Budgeting and Economic Department.
- *The Security Department* assesses non-credit risks such as reputational risks or any information relating to the unreliability of a client.

Business divisions participate in STLC's risk management within the functional duties specified in the internal regulating documents.

Risk management processes throughout STLC are audited annually by the Internal Audit Department which examines both the adequacy of the procedures and STLC's compliance with the procedures, both in respect of the risk management system taken as a whole and in individual business areas. The internal control function discusses the results of all assessments with management and presents its findings and recommendations to the General Director and the Board of Directors of STLC.

### ***Excessive Risk Concentration***

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Risk concentrations reflect the relative sensitivity of STLC's performance to developments affecting a particular industry or geography. In order to avoid excessive concentrations of risk, STLC's policies and procedures include specific guidelines that focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

### **Credit Risk**

STLC is exposed to credit risk, being the risk of financial loss if a counterparty fails to meet its contractual obligations. STLC's credit risk exposures arise principally from its finance leasing activities and receivables on operating leases. STLC structures the levels of credit risk it undertakes by placing limits on the amount of exposure in relation to a single counterparty or groups of counterparties, and in relation to the size of any individual leasing transaction. In addition, STLC monitors credit risk by analysing the financial position of counterparties. Credit risk management also involves regular monitoring of the ability of counterparties to pay amounts in full when due, analysis of the financial position of lessees and monitoring of the condition of leased-out equipment. Such risks are monitored on a revolving basis and are subject to quarterly or more frequent review.

In relation to finance leases, the maximum credit risk exposure, ignoring the fair value of any leased asset, in the event other parties fail to meet their obligations under financial instruments is equal to the carrying value of financial assets as presented in the Group's Financial Statements and the disclosed financial commitments. This varies for operating leases which may also be subject to impairment on the basis of their market price and use or deterioration. These impairment risks are different in nature for operating leases as the credit risk exposure under operating leases is limited to the total amount of current payments due but outstanding on an operating lease, as the Group accepts risks in respect of the asset as a leased asset rather than as a financial asset.

### ***Credit Risk Analysis***

A key component of the approval of any proposed leasing transaction is the credit analysis carried out in respect of each customer as well as of the underlying asset itself and STLC has detailed credit risk assessment procedures to minimise the credit risk of any such transactions. The Group is increasingly taking an asset-centred approach on credit risk analysis given the long life of the assets (often 20-30 years) and the leases (often 10-20 years). The Group continues to conduct detailed credit risk analysis in respect of each customer.

The credit analysis procedures employed by STLC for managing credit risk include the following:

- expert pre-screening of any proposed leasing transaction before approval;
- use of credit risk limits in respect of any particular customer or sector;

- on-going control and monitoring of the financial condition of all lessees to enable any potential defaults to be detected early (this ensures that the Group can be proactive in arranging for the asset to be leased out to another customer thereby reducing the amount of time any asset stands idle);
- continued monitoring of asset value and quality during the life of the lease;
- monitoring of credit risks of major lessees and concentrations of risk; and
- analysis of potential risk increases in respect of any individual or group of assets and lessees.

### ***Credit-related commitments risks***

Credit risk is the risk that the Group will incur a financial loss because its counterparties fail to discharge their financial obligations in full or in part when due. With respect to commitments related to providing lease equipment, STLC is potentially exposed to loss in an amount equal to the total amount of such commitments. However, the likely amount of loss is less than that, since most commitments are contingent upon certain conditions set out in the finance lease agreements.

For details of maximum exposure to credit risk for the components of statement of financial position, including derivatives, of STLC, please refer to Note 27 of the 2018 Consolidated Financial Statements.

### ***Credit quality per class of financial assets***

The credit quality of financial assets is managed through STLC's system of categorising risk per client. It is STLC's policy to maintain accurate and consistent risk ratings across the lease portfolio. This facilitates focused management of the applicable risks and the comparison of credit exposures across all lines of business, geographic regions and products. The rating system is supported by a variety of financial analytics, combined with processed market information to provide the main inputs for the measurement of counterparty risk. All risk ratings are tailored to the various categories and are derived in accordance with STLC's rating policy. The attributable risk ratings are assessed and updated regularly.

The high grade is assigned to a borrower whose financial position can be evaluated as good and where a due diligence review of the borrower's production, financial and business operations and other information, including that on operating environment, indicate that the borrower's production, profitability and solvency are sustained and there are no adverse developments (trends) which may affect the borrower's future financial stability.

The standard grade is assigned to a borrower where a due diligence review of the borrower's production, financial and business operations and/or other information indicate that, although there is no direct threat to the borrower's current financial position, the borrower's business is subject to adverse developments (trends) which may give rise to financial difficulties in the foreseeable future (within a year or sooner) if the borrower does not take steps to improve the situation.

The substandard grade is assigned to a borrower where there is evidence of critical adverse developments (trends) which are likely to result in the borrower's partial insolvency.

For additional information and tables showing the credit quality by quality category of asset for respective lines on the statement of financial position, please refer to Note 26 of the 2018 Consolidated Financial Statements.

### ***Impairment assessment***

Financial assets carried at amortised cost consist principally of net investment in leases, cash and cash equivalents, deposits with banks and other receivables. The Group reviews its leases and receivables to assess impairment on a regular basis. A lease or receivable is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the lease or receivable and that event (or events) has had an impact on the estimated future cash flows of the loan that can be reliably estimated.

Objective evidence that financial assets are impaired can include default or delinquency by a borrower, breach of loan covenants or conditions, restructuring of a loan or advance on terms that the Group would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, deterioration in the value of collateral, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers in the group, or economic conditions that correlate with defaults in the group.

The Group first assesses whether objective evidence of impairment exists individually for leases and receivables that are individually significant, and individually or collectively for leases and receivables that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed lease or receivable, whether significant or not, it includes the lease in a group of loans and receivables with similar credit risk characteristics and collectively assesses them for impairment. Leases and receivables that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on a loan or receivable has incurred, the amount of the loss is measured as the difference between the carrying amount of the loan or receivable and the present value of estimated future cash flows including amounts recoverable from guarantees and collateral discounted at the loan or receivable's original effective interest rate. Contractual cash flows and historical loss experience adjusted on the basis of relevant observable data that reflect current economic conditions provide the basis for estimating expected cash flows.

In some cases the observable data required to estimate the amount of an impairment loss on a lease or receivable may be limited or no longer fully relevant to current circumstances. This may be the case when a lessee is in financial difficulties and there is little available historical data relating to similar lessees. In such cases, the Group uses its experience and judgement to estimate the amount of any impairment loss.

All impairment losses in respect of leases and receivables are recognised in profit or loss and are only reversed if a subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

When a lease or receivable is uncollectable, it is written off against the related allowance for impairment. The Group writes off a lease or receivable balance (and any related allowances for credit losses) when management determines that the outstanding amounts are uncollectable and when all necessary steps to collect such amounts are completed.

The Group adopted IFRS 9 Financial Instruments (issued in July 2014) with a date of initial application of 1 January 2018 and also adopted amendments to IFRS 9 on the same date. The adoption of IFRS 9 has not affected the Group's key financial stability indicators in any material matter. The key changes to the Group's accounting policies resulting from its adoption of IFRS 9 are summarised below.

### ***Classification of financial assets and financial liabilities***

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (**FVOCI**) and fair value through profit or loss (**FVTPL**). IFRS 9 classification is generally based on the business model in which a financial asset is managed along with the contractual cash flows of that financial asset. The standard eliminates the existing IAS 39 categories of “held-to-maturity”, “loans and receivables” and “available-for-sale”. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never bifurcated. Instead, the whole hybrid instrument is assessed for classification.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities. Although under IAS 39 all fair value changes of liabilities designated under the fair value option were recognised in profit or loss, under IFRS 9 fair value changes are generally presented as follows:

- the amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in other comprehensive income; and
- the remaining amount of change in the fair value is presented in profit or loss.

### ***Impairment of financial assets***

IFRS 9 replaces the “incurred loss” model in IAS 39 with an “expected credit loss” model. The new impairment model also applies to certain loan commitments and financial guarantee contracts but not to equity investments. Under IFRS 9, credit losses are recognised earlier than under IAS 39.

The Group recognises loss allowances ECL on the following financial instruments that are not measured at FVTPL:

- net investments in leases;
- receivables on cancelled lease agreements and other receivables;
- loans granted;
- other financial assets that are debt instruments; and
- financial guarantee contracts issued.

The Group measures loss allowances at an amount equal to lifetime ECL, except for the following, for which loss allowances are measured as 12-month ECL:

- financial instruments from the time of initial recognition; and
- financial instruments that are not credit-impaired, overdue or delayed for more than 30 days (and, in case of budgetary institutions, for more than 180 days), for which the credit risk has not increased significantly since their initial recognition.

The 12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within 12 months after the reporting date.

### ***Significant increase in credit risk***

When determining whether the risk of default on a financial instrument has increased significantly since its initial recognition, the Group considers reasonable and supportable information that is

relevant and available without undue cost or effort. This includes quantitative and qualitative information and analysis, based on the Group's historical experience and expert credit assessment for forward-looking information.

The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by comparing:

- the remaining lifetime PD as at the reporting date; with
- the remaining lifetime PD that was estimated at the time of the initial recognition of the exposure for this point in time (adjusted where relevant for changes in prepayment expectations).

### ***Credit risk grades***

The Group allocates each exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgement. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower.

Credit risk grades are defined and calibrated such that the risk of default occurring increases exponentially as the credit risk deteriorates. For example, the difference in the risk of default between credit risk grades 1 and 2 is smaller than the difference between credit risk grades 2 and 3.

Each exposure is allocated to a credit risk grade at the initial recognition based on the available information about the borrower. Exposures are subject to on-going monitoring, which may result in an exposure being moved to a different credit risk grade. The monitoring typically involves the use of the following data:

- information obtained during the periodic review of customer files – e.g. audited financial statements, management accounts, budgets and projections;
- information about payments, including the status of any overdue amounts;
- data from credit reference agencies, press articles, changes in external credit ratings; and
- actual and expected material changes in the political, regulatory and technological environment of the borrower or in its business activities.

### ***Generating the term structure of PD***

Credit risk grades are primarily input for determining the term structure of the PD of exposures. The Group collects performance and default information about its credit risk exposures and analyses this based on jurisdiction or region, type of product and borrower and credit risk grading.

The Group employs statistical models to analyse the data collected and to generate estimates of the remaining lifetime PD of exposures, as well as to analyse how these are expected to change as a result of the passing of time.

This analysis includes the identification and calibration of relationships between changes in default rates and changes in key macro-economic factors as well as in-depth analysis of the impact of certain other factors on the risk of default.



The Group uses expert judgement for the assessment of forward-looking information. This assessment is partially based on external information. The Group uses these forecasts to adjust its estimates of PDs.

### ***Determining whether credit risk has increased significantly***

The Group assesses whether credit risk has increased significantly since initial recognition at each reporting period. Criteria for significant credit risk increase depend on PD at the date of initial recognition. The criteria for determining whether credit risk has increased significantly vary by portfolio. These criteria include quantitative changes in PDs and qualitative factors, including a backstop based on delinquency. If increases in credit risk are measured, the remaining lifetime ECLs are adjusted for changes in maturity. Using its expert credit judgement and, where possible, relevant historical experience, the Group may determine that an exposure has undergone a significant increase in credit risk. This may be based on the particular qualitative indicators that the Group considers indicative of such increase in credit risk, where the effect may not otherwise be fully reflected on a timely basis by its quantitative analysis.

As a backstop, the Group considers that a significant increase in credit risk occurs when an asset is more than 30 days (and, in case of budgetary institutions whose financial security is carried out by corresponding budget, 180 days) past due. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received.

The Group monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

- the criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- the criteria do not align with the point in time when an asset becomes 30 days past due;
- the average time between the identification of a significant increase in credit risk and default appears reasonable;
- exposures are not generally transferred directly from 12-month ECL measurement (stage 1) to credit-impaired (stage 3); and
- there is no unwarranted volatility in loss allowance from transfers between 12-month ECL measurement (stage 1) and lifetime ECL measurement (stage 2).

### ***Modified financial assets***

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognised and the renegotiated loan recognised as a new loan with modified terms.

When the terms of a financial asset are modified and the modification does not result in derecognition, the determination of whether the asset's credit risk has increased significantly reflects the comparison of:

- its remaining lifetime PD at the reporting date based on the modified terms; with
- the remaining lifetime PD estimated based on data as at the initial recognition and on the original contractual terms.

The Group renegotiates loans with customers in financial difficulties (referred to as “forbearance activities”) to maximise collection opportunities and minimise the risk of default. Under the Group’s forbearance policy, loan forbearance is granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, provided that there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms. The revised terms usually include an extension of the maturity and/or changes to the timing of lease payments.

For the financial assets modified under the Group’s forbearance policy, the estimate of the PD reflects whether the modification has improved or restored the Group’s ability to collect interest and principal, as well as the Group’s previous experience of similar forbearance actions. As part of this process, the Group evaluates the borrower’s payment performance against the modified contractual terms and considers various behavioural indicators.

Generally, forbearance is a qualitative indicator of a significant increase in credit risk and a request for forbearance may constitute evidence that an exposure is credit-impaired or in default. A customer needs to demonstrate good payment behaviour consistently over a period of time before the exposure is no longer considered to be credit-impaired or in default or before the PD is considered to have decreased in such a way that the loss allowance reverts to being measured at an amount equal to 12-month ECL.

### ***Definition of default***

The Group considers a financial asset to be in default when:

- the counterparty is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as withdrawal of a leased asset;
- the counterparty is more than 90 days (or, in case of budgetary institutions whose financial security is carried out by corresponding budget, 270 days) past due on any material credit obligation to the Group; or
- it is becoming probable that the borrower will restructure the asset as a result of bankruptcy due to the counterparty’s inability to pay its credit obligations.

When assessing whether a borrower is in default, the Group considers the following indicators:

- quantitative – e.g. overdue status and non-payment of another similar obligation to the Group; and
- data developed internally and obtained from external sources.

The indicators of the assessment as to whether a financial instrument is in default and the significance of each indicator may vary over time to reflect changes in circumstances.

### ***Incorporating forward-looking information***

The Group incorporates forward-looking information into its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition, as well as its measurement of ECL. The Group uses expert judgement for the assessment of forward-looking information. This assessment is partially based on external information.

### ***Measurement of ECL***

The key inputs into the measurement of ECL are the term structures of the following variables:

- probability of default (**PD**);
- loss given default (**LGD**); and
- exposure at default (**EAD**).

These parameters are generally derived from internally developed statistical models and other historical data. They are adjusted to reflect forward-looking information as described above.

PD estimates are estimated at a certain date, calculated based on statistical rating models, and assessed using rating tools tailored to the various categories of counterparties and exposures. These statistical models are based on internally compiled data comprising both quantitative and qualitative factors. When available, market data may also be used to derive the PD for large corporate counterparties. If a counterparty or exposure migrates between rating classes, then the estimate of the associated PD will change as well. PDs are estimated considering the contractual maturities of exposures and estimated prepayment rates.

The Group estimates LGD parameters based on the history of recovery rates in leased asset disposals. The LGD models consider the type of the leased asset, the production date, the market value, the cost of impoundment and storage and the time needed to dispose of the leased asset. LGD estimates are recalibrated for different economic scenarios and to reflect possible changes in leased asset prices. They are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

EAD represents the expected exposure in the event of a default. The Group derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract, including amortisation. The EAD of a financial asset is its gross carrying amount.

As described above (assuming a financial asset with a maximum of a 12-month PD for which credit risk has not significantly increased) the Group measures ECL considering the risk of default over the maximum contractual period over which it is exposed to credit risk (including any borrower's extension options), even if the Group considers a longer period for risk management purposes.

### ***Collateral and other credit enhancements***

For net investments in leases, STLC holds the title to the leased property during the lease term and may transfer it to the lessee only at the end of the lease term, provided that all obligations under the finance lease agreements were successfully fulfilled by the lessee.

The amount and type of additional collateral (if any) depends on the assessment of the credit risk of the counterparty. The parameters of additional collateral are subject to the approval of the Leasing Council under the terms and conditions of the underlying lease agreement. Collateral is taken to enhance an acceptable lease agreement proposal, rather than being used as the sole rationale for any lease agreement approval. Where facilities are approved against security, full details, including the type, value, and frequency of review of the security, must be detailed in the "application for lease agreement" form. Where practical, the account officer must have seen evidence of the existence of the collateral offered and, wherever possible, seen the actual collateral for themselves.

STLC management monitors the market value of collateral, requests additional collateral in accordance with the terms of the underlying finance lease agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment losses.

Repossessed lease equipment is recorded under “Equipment and vehicles repossessed after the termination of lease agreements” of the 2018 Consolidated Financial Statements. As at 31 December 2018, repossessed collateral amounted to RUB 307 million as compared to RUB 913 million as at 31 December 2017. For more detailed information, please refer to Note 11 of the 2018 Consolidated Financial Statements.

The valuation of the collateral will vary with individual circumstances. As a general guide, where STLC takes collateral it will ensure that an adequate margin is obtained and maintained throughout the term of the facility lease agreement.

Risks related to leased properties and other collateral (being primarily the leased asset) such as damage and theft are generally insured (or are provided for to be insured by the lessees in accordance with the relevant lease arrangements, whereby the fact of such insurance being in place is controlled by STLC on a constant basis) on lease agreements.

### **Asset and Equipment Risks**

STLC faces certain risks inherent in owning large portfolios of assets, which are minimised as much as possible in its finance and operating lease agreements through a combination of insurance, security and undertakings by the lessees. The following are the primary risks and the steps taken by STLC to minimise them:

*Risk that the market value of the leased asset in the event of a default will be less than the remaining amount due under the lease.* In order to minimise this risk, STLC structures payments due under a finance lease, and the residual final payment, based on accelerated depreciation of the leased asset, with the intention that, if there were to be a default, the market value of the leased asset will in general be higher than the depreciated book value of the asset and the unearned finance lease income.

- *Risk of loss, misappropriation, equipment failure and improper operation of equipment.* This risk is minimised, in most cases, by STLC insuring the asset at the full value of its investment prior to delivery to the lessee (with the cost of such insurance built into the payments due under the lease) or, in the case of certain assets such as aircraft, by requiring the lessee to insure the asset in accordance with stringent international legal standards required for the operation of such assets (see “*Business – Insurance*”), and by regular monitoring of assets and equipment by STLC.
- *Risk of non-delivery, or late or incomplete delivery.* This risk is minimised by STLC procuring bank guarantees, letters of credit and surety guarantees from suppliers as part of the negotiations to purchase the asset.
- *Risk that a lessee lacks required permits to operate the equipment or asset.* This risk is minimised by ensuring that failure to obtain necessary approvals and permits is an event of default under the finance lease agreement and, if necessary, procuring that additional security such as share pledges or surety guarantees are provided by the lessee.
- *Risk of incomplete equipment or asset certification.* This risk is minimised by STLC only paying the balance due for the equipment or asset to the supplier after final delivery, upon presentation of the required certification and once the equipment has been thoroughly checked (often an initial down-payment is required by suppliers when the asset is first purchased).

- *Risks that the lessee lacks qualified personnel to operate the equipment.* This risk is minimised by undertakings from the lessee to properly train its employees in the use of the equipment. In addition, STLC will perform due diligence procedures in respect of the potential clients along with respective credit analysis. STLC's risk department deals with required permits, personnel and competences on the lessees' side during such procedures.

### **Liquidity Risk and Funding Management**

Liquidity risk is the risk that STLC will be unable to meet its payment obligations when they fall due under normal and stress circumstances. STLC's liquidity position is carefully monitored and managed and STLC has in place a detailed budgeting and cash forecasting process to ensure that it has adequate cash available to meet its payment obligations. To limit this risk, the management of STLC arranges various funding sources, manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

STLC manages its liquidity risk at the following three levels:

- STLC and each of its subsidiaries manages its liquidity both on a stand-alone basis so that it is able to meet its obligations and to comply with regulatory requirements applicable to it and also through the United Treasury at Group level;
- STLC manages the Group's liquidity by re-allocating funds across the Group through intercompany loans; and
- the Leasing Council manages STLC's strategy for medium- and long-term financing.

Liquidity risks are therefore limited because STLC typically funds itself on a matched basis.

STLC uses contractual maturity analysis and a forecast of cash flow as basic tools for mitigation and management of liquidity risks. It also sets internal limits, confining the minimum level of highly liquid assets to cover short-term obligations, maturity mismatch limits, concentration of liability financing base and maximum funding volume subject to the current liquidity level. STLC manages its liquidity so that in each interval the gap in liquidity in view of planned operations does not exceed a certain internal limit.

### ***United Treasury***

The United Treasury of the Group was formed based on decisions of the Board of Directors of STLC No. 56/2015 of 19 February 2015, No. 57/2015 of 30 March 2015, and No. 59/2015 of 29 May 2015 for the following purposes of centralisation of management of the financial flows of the Group, minimisation of financial risks and operating expenses as related to treasury functions, and maximisation of income from investment of free financial resources.

The United Treasury has the following key objectives:

- organisation of the system of relations with banks, ensuring the streamlining of the bank account structure, minimisation of costs on the operating expenses of banks and interest on loans with the maximum possible benefit for the Group companies, and an annual stocktake of the settlement account structure;
- operational planning and optimisation of cash flows, including the drafting of a set of planned assignments for financial support of the activity of the Group, distribution of resources between the Group, and investment of free cash flows;

- control, including control over execution of the cash flow budget and established limits, control over the proper performance of payments and timely receipt of proceeds, on-going monitoring and control over accounts payable and accounts receivable;
- management of financial risks, including the hedging (insurance) of interest, currency, price and volumetric risks, the drafting and control over limits on various expense items (in particular, the formation of a payment calendar and control over its implementation); and
- construction (development) of the information infrastructure ensuring the automation of the extended functions of the United Treasury, integration of treasury decisions with the production and accounting systems of neighbouring blocks at the level of the corporate centre of the Group.

The United Treasury is represented by the Treasury Department of STLC and the financial divisions of its subsidiaries, performing the following functions:

- debt financing;
- payment processing;
- liquidity management;
- corporate dealing;
- intragroup financing;
- relations with banks;
- monitoring and forecasting of accounts payable and accounts receivable; and
- management of currency and interest risks.

STLC's Treasury Department is responsible for the timely and proper performance of the treasury functions at STLC, whereas financial divisions are responsible for the timely and proper performance of the treasury functions at the corresponding subsidiaries. A unified reporting system for the monitoring of and control over the performance of treasury operations has been introduced within the United Treasury. The Treasury Department of STLC performs monitoring (for foreign subsidiaries) and exercises control (for Russian subsidiaries), and financial divisions are responsible for the timely provision to the Treasury Department of the reports.

For detailed analysis of financial liabilities as of 31 December 2018 based on contractual discounted repayment obligations, please refer to Note 28 of the 2018 Consolidated Financial Statements.

### **Market Risk**

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates and foreign exchange rates. The market risk results in the impairment of fair value or future payment flows of financial instruments owned by the Group.

### ***Foreign currency risk***

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. STLC's exposure to the risk of changes in foreign exchange rates relates primarily to operating activities (when revenues or expenses are denominated in a different currency from the functional currency). Currency rate positions are currently managed and monitored using other sensitivity analysis. STLC has no significant concentration of market risk and currently uses appropriate hedging instruments to mitigate foreign exchange risks of its operations.

To mitigate and manage the market risk the Board of Directors and Budgeting and Economic Department establish limits on potential losses, and the Budgeting and Economic Department monitors compliance with such limits. Limits on securities are approved by the Budgeting and Economic Department and Board of Directors based on analysis performed by the Budgeting and Economic Department. STLC is currently not involved in trading operations due to the nature of its core business.

### ***Interest rate risk***

Interest rate risk is the risk that interest income could decrease or interest expense could increase based on changes in market interest rates, which could adversely affect the fair value of future cash flows generated by financial instruments. The exposure of STLC to interest rate risk is insignificant. In accordance with the standard provisions of finance lease agreements, STLC is entitled to unilaterally reconsider leasing payments if adverse changes of funding conditions, including interest rate increases, occur. STLC is therefore able to shift the interest rate risk to the customer.

### **Prepayment Risk**

Prepayment risk is the risk that STLC will incur a financial loss because its customers and counterparties repay or request repayment earlier than expected. In its standard finance lease agreement, STLC prescribes prepayment mechanics designed to compensate STLC for all losses it would otherwise incur due to the prepayment, including expected profit. In addition, early repaid finance lease receivables are not significant as a percentage of the total volume of finance leases granted.

### **Operational Risk**

Operational risk is the risk of losses arising from inadequate internal operating procedures, including failures, defects or errors of information, resulting from either human error or technological failings. STLC manages the operational risk through precise regulation of all business processes, employing a control framework and by monitoring and responding to potential risks. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment procedures as well as assessment processes, including the use of the Operational Control Department which reports to the Board of Directors. Key tasks of this department include the day-to-day control over compliance with internal regulations governing the sequence of business processes in lease transactions, control over correct compilation of information bases by the employees of regional branches, control over the client's payment discipline and correct preparation of data regarding the impaired/potentially impaired debt by the employees of regional branches. In addition, the Operational Control Department controls compliance with an obligation to insure the leased assets, documentation and filing procedures.

## MANAGEMENT

### Introduction

In accordance with STLC's charter and Russian legislation governing joint stock companies, including the Civil Code of the Russian Federation (the **Civil Code**) and Federal Law No. 208-FZ of 26 December 1995 "On Joint-Stock Companies" (the **Joint Stock Companies Law**), STLC is governed by its shareholders through their annual and extraordinary meetings (each a **General Shareholders Meeting**), its board of directors (the **Board of Directors**) and the general director, who acts as the chief executive officer (the **General Director**).

As a state-owned company, the Group's strategy is influenced by the Ministry of Transport of the Russian Federation and is subject to approval by the Prime Minister and Cabinet of Ministers. The Ministry of Transport exercises its control through corporate governance procedures acting as the sole shareholder of STLC. The Board of Directors also includes the representative of the Ministry of Transport of the Russian Federation. From August 2018 until January 2020 STLC's Board of Directors was chaired by the Deputy Prime Minister of the Russian Federation. In February 2020, STLC was included in the list of state-owned companies directly supervised by the First Deputy Prime Minister of the Russian Federation. STLC's Long-Term Development Programme is subject to review and final approval by the Russian Government.

Although STLC's strategy is aligned with the Russian Federation's and the Ministry of Transport's priorities, any such goals do not override STLC's general corporate aims, including the generation of profit. STLC has the power to determine its approach regarding the realisation of governmental initiatives, except where such programmes are financed through a direct capital injection from the Russian Federation. Any forms of governmental control over the Group's operations are executed under due corporate governance procedures. STLC's Board of Directors includes a number of independent directors and assigns a number of special committees which allow the board to make strategic decisions in line with best management standards and business development needs.

### General Shareholders Meeting

On the basis of the Civil Code, Joint Stock Companies Law and STLC's charter, the General Shareholders Meeting is STLC's highest governance body. An Annual General Shareholders Meeting must be held every year between 1 March and 30 June and extraordinary General Shareholders Meetings may be called by the Board of Directors on its own initiative or at the request of STLC's independent auditor, the Internal Audit Committee, or shareholders holding in the aggregate not less than 10 per cent of the issued ordinary shares of STLC. Each ordinary share of STLC carries the right to cast one vote at any General Shareholders Meeting.

The following summarises certain key decisions that must be taken by STLC's General Shareholders Meeting:

- any change to STLC's charter;
- any change to the size and composition of STLC's authorised share capital;
- the election and early termination of powers of the members of the Board of Directors;
- the approval of certain major transactions and interested party transactions;
- the reorganisation or liquidation of STLC;



- the approval of STLC’s independent auditor;
- the approval of STLC’s statutory annual reports and financial statements;
- the approval of dividends; and
- certain other matters provided for by law and STLC’s charter.

However, as of the date of this Prospectus, the sole shareholder of STLC is the Russian Federation (see “*Principal Shareholders*”). Because the sole shareholder of STLC is the Russian Federation, all the powers of the general meeting of shareholders are exercised by the Ministry of Transport of the Russian Federation acting on behalf of the Russian Federation. Generally under Russian law, if the Russian Federation is the sole shareholder in a company, the decisions of the sole shareholder will be made in the form of a decree of the Federal Agency for the Management of State Property (*Rosimuschestvo*). However, Regulation No. 93 dated 4 February 2009 issued by the Government specifically provides that the Ministry of Transport of the Russian Federation exercises the rights of the sole shareholder of STLC. Accordingly, all decisions of the sole shareholder of STLC are taken in the form of regulations and decrees of the Ministry of Transport of the Russian Federation.

### **Board of Directors**

The Board of Directors is responsible for STLC’s general management, excluding matters that are within the exclusive responsibility of the General Shareholders Meeting. Members of the Board of Directors are elected by the General Shareholders Meeting, serve until the next annual General Shareholders Meeting, and may be re-elected an unlimited number of times. As at the date of this Prospectus, STLC has eight members on its Board of Directors.

A meeting of the Board of Directors may be called by the chairman of the Board of Directors at his own initiative or at the demand of a member of the Board of Directors, STLC’s independent auditor, the Internal Audit Committee, the General Director or shareholders holding in the aggregate not less than 10 per cent of the issued ordinary shares of STLC. The Board of Directors meets when required.

The current members of the Board of Directors were elected by decree of the Ministry of Transport of the Russian Federation No. ED-111-p dated 8 August 2019. The name, first year of appointment and position for each member of the Board of Directors are set out below:

<b>Name</b>	<b>Year of appointment</b>	<b>Position</b>
M.A. Akimov	2018	Chairman of the Board of Directors
Y.M. Medvedev	2011	Member of the Board of Directors, Independent Director
A.I. Boginsky	2015	Member of the Board of Directors
I.S. Alafinov	2019	Member of the Board of Directors
V.M. Okulov	2018	Member of the Board of Directors, Independent Director
O.E. Bocharov	2017	Member of the Board of Directors
L.R. Nisenboim	2019	Member of the Board of Directors, Independent Director
S.N. Khramagin	2013	Member of the Board of Directors

The business address of the Board of Directors is Bld. 1, 31A, Leningradskiy Prospect, Moscow 125284, Russian Federation.

*A.M. Akimov* has been a member of the Board of Directors of STLC and Chairman of the Board of Directors of STLC since August 2018. From May 2018 to January 2020 Mr Akimov was the Deputy Prime Minister of the Russian Federation. In February 2020 Mr Akimov was appointed the CEO and Chairman of the Management Board of JSC Russian Post. Mr Akimov was born in 1970.

*Y.M. Medvedev* has been a member of the Board of Directors of STLC since June 2011. Mr Medvedev is also Vice President – Chief of Staff of Closed Joint Stock Company Saint Petersburg International Mercantile Exchange and a member of the Board of Directors of JSC “Sheremetyevo International Airport”, OJSC “Corporation ROSKHIMZASHITA”, JSCB “IRS” (JSC), and JSC “Concern Oceanpribor”. From June 2011 until August 2018 Mr Medvedev was the Chairman of the Board of Directors of STLC. Mr Medvedev was born in 1948.

*A.I. Boginsky* has been a member of the Board of Directors of STLC since November 2015. Until December 2016 Mr Boginsky was the Deputy Minister of the Ministry of Industry and Trade of the Russian Federation. In January 2017 he was appointed the CEO of JSC “Russian Helicopters”. Mr Boginsky was born in 1974.

*I.S. Alafinov* has been a member of the Board of Directors of STLC since February 2019. Mr Alafinov is also the First Deputy Minister of Transport of the Russian Federation. From 2000 to 2009 he held various executive positions in the Ministry of Finance of the Russian Federation. From 2009 to 2013 Mr Alafinov was the Deputy Head of the Federal Highway Agency of the Ministry of Transport of the Russian Federation. From 2013 to 2014 he worked as the assistant secretary to the Minister of Finance of the Russian Federation. From 2014 to 2018 Mr Alafinov held various executive positions in the Russian Highways State Company (Avtodor). Mr Alafinov was born in 1976.

*V.M. Okulov* has been a member of the Board of Directors of STLC since June 2018. Mr Okulov is also the Adviser for Civil Aviation to the President of the United Aircraft Corporation. In 1997-2009 Mr Okulov was the General Director of Aeroflot. From 2009 to 2017 he was the Deputy Minister of Transport of the Russian Federation. Mr Okulov was born in 1952.

*O.E. Bocharov* was appointed a member of the Board of Directors in June 2017. Mr Bocharov is also the Deputy Minister of Industry and Trade of the Russian Federation. From 1997 to 2014 Mr Bocharov was a deputy of the Moscow City Duma. From August 2014 until February 2017 he was the Head of Moscow Department of Science, Industrial Policy and Entrepreneurship. In February 2017 he was appointed Deputy Minister of Industry and Trade of the Russian Federation. Mr Bocharov was born in 1968.

*L.R. Nisenboim* has been a member of the Board of Directors of STLC since February 2019. Ms Nisenboim is also the Head of Department for Strategic Consultancy and Investment Analysis of the Analytical Centre for the Government of the Russian Federation. Her prior experience includes more than 18 years in consulting services in PricewaterhouseCoopers and Deloitte. She holds an MBA from Kellogg, Northwestern University. Ms Nisenboim was born in 1975.

*S.N. Khramagin* has been a member of the Board of Directors of STLC since June 2013. Mr Khramagin has been the General Director of STLC since November 2012. He is also the Adviser to the Minister of Transport of the Russian Federation. Previously he was CEO of LLC “Raznoimport Holding” (2007–2012) and Adviser to the CEO of OJSC “AVIAEXPORT” (2004-2007). Mr Khramagin was born in 1965.

## General Director

Pursuant to STLC’s charter and by-laws on the General Director, the General Director is appointed by the Board of Directors for a period of five years.

S.N. Khramagin has been the General Director of STLC since November 2012. In 2017, Mr Khramagin was re-appointed as the General Director of STLC for the next five-year term by decree of the Ministry of Transport of the Russian Federation No. MC-104-p dated 20 June 2017. See “*Management – Board of Directors*”.

According to the Joint Stock Companies Law and STLC’s charter, the General Director shall, in particular:

- operate in the name of STLC, including representing STLC’s interests, concluding transactions and signing documents without a power of attorney;
- dispose STLC’s assets to carry out day-to-day activities;
- adopt internal documents of STLC;
- open bank accounts;
- issue powers of attorney;
- sign employment contracts; and
- decide other matters in the normal course of business.

The business address of the General Director is Room 100, B1d. 73, ul. Respubliki, Salekhard, Yamalo-Nenetsky Avtonomny Okrug, Russian Federation, 629008.

## Audit Committee

The Audit Committee is a statutory audit commission required under Russian legislation governing joint stock companies. The exact composition of the Internal Audit Committee is determined by a decision of the Annual General Shareholders Meeting and its members serve until the next Annual General Shareholders Meeting. Members of the Internal Audit Committee may not also be members of the Board of Director or the General Directors of STLC. The Audit Committee controls STLC’s financial and economic activity and conducts audits on an annual basis.

The current members of the Audit Committee were elected by decree of the Ministry of Transport of the Russian Federation No. ED-111-p dated 8 August 2019 and are set out below:

Name
I.N. Goloub
M.V. Groza
M.Z. Mardanshin

The business address of the members of the Audit Committee is Bld. 1, 31A, Leningradskiy Prospect, Moscow 125284, Russian Federation.

## Internal Committees

As of the date of this Prospectus STLC has three acting committees:

- the Internal Audit Committee;
- the Strategic Planning Committee; and
- the Human Resources and Remuneration Committee.

The committees are formed by decision of the Board of Directors as advisory and consultative bodies and each committee must be composed of at least three members. The exact composition of the committees is determined by the Board of Directors after each election of the Board of Directors. The committees are non-executive bodies of STLC and are not authorised to act on its behalf. The decisions of the committees serve as guidelines to the Board of Directors.

### *Internal Audit Committee*

The Internal Audit Committee oversees STLC's financial and economic activity.

The following key areas are under on-going supervision of the Internal Audit Committee:

- internal controls efficiency;
- risk management systems;
- corporate governance practices;
- accuracy of financial statements;
- compliance matters and anti-fraud procedures;
- external audit procedures and review of its results; and
- other matters.

The current members of the Internal Audit Committee were appointed at the Board of Directors meeting on 9 August 2019 and are set out below:

<b>Name</b>	<b>Position</b>
L.R. Nisenboim	Member of the Internal Audit Committee
V.N. Okulov	Member of the Internal Audit Committee
V.V. Moskvitin	Member of the Internal Audit Committee
A.V. Holopov	Member of the Internal Audit Committee
R.U. Suleymanov	Member of the Internal Audit Committee

The business address of the members of the Internal Audit Committee is Bld. 1, 31A, Leningradskiy Prospect, Moscow 125284, Russian Federation.

### *Strategic Planning Committee*

The Strategic Planning Committee is focused on improving STLC's long-term development and efficiency and oversees the following key areas:

- determination of priority business development areas;
- evaluation of long-term business efficiency;
- determination of STLC's key strategic objectives, control over implementation of the long-term development programme and advising the Board of Directors on amendments to the existing long-term development programme;
- preliminary consideration and working out of recommendations in relation to STLC's potential acquisition of equity stakes in other companies;
- preliminary review of STLC's annual reports; and
- other matters.

The current members of the Strategic Planning Committee were elected at the Board of Directors meeting on 9 August 2019 and are set out below:

<b>Name</b>	<b>Position</b>
I.S. Alafinov	Chairman of the Strategic Planning Committee
V.M. Okulov	Member of the Strategic Planning Committee
O.E. Bocharov	Member of the Strategic Planning Committee
S.N. Khramagin	Member of the Strategic Planning Committee
L.R. Nisenboim	Member of the Strategic Planning Committee
V.V. Moskvitin	Member of the Strategic Planning Committee

The business address of the members of the Strategic Planning Committee is Bld. 1, 31A, Leningradskiy Prospect, Moscow 125284, Russian Federation.

### *Human Resources and Remuneration Committee*

STLC's Human Resources and Remuneration Committee has been constituted to make recommendations to the Board of Directors and the shareholder on matters related to human resources management and transparent and efficient remuneration policies.

The current members of the Human Resources and Remuneration Committee were appointed by the Board of Directors of STLC on 9 August 2019 and are set out below:

<b>Name</b>	<b>Position</b>
Y.M. Medvedev	Chairman of the Human Resources and Remuneration Committee
A.V. Tikhonov	Member of the Human Resources and Remuneration Committee

A.I. Boginsky	Member of the Human Resources and Remuneration Committee
L.R. Nisenboim	Member of the Human Resources and Remuneration Committee
V.M. Okulov	Member of the Human Resources and Remuneration Committee
E.A. Rybina	Member of the Human Resources and Remuneration Committee
A.V. Holopov	Member of the Human Resources and Remuneration Committee

The business address of the members of the Human Resources and Remuneration Committee is Bld. 1, 31A, Leningradskiy Prospect, Moscow 125284, Russian Federation.

### **Interest of Directors and Officers**

Certain directors and executive officers of STLC serve as directors and executive officers of the Group's affiliates. The Group engages in transactions with some of these affiliates, including transactions in the ordinary course of business. See "*Related Party Transactions*". As a result, potential conflicts of interest could arise between these directors' and executive officers' duties to the Group and their private interest or other duties. See "*Principal Shareholders*".

### **Employees**

#### *General*

The number of employees employed by STLC was 306 as at 31 December 2017, 362 as at 31 December 2018 and 391 as at December 2019. The average staff number of the Group amounted to 284 employees in 2017, 355 employees in 2018 and 433 employees in 2019. Headcount increase was driven by changes in STLC's organisational structure which needed to reflect changes in the Group's new business breakdown and the necessity to enhance respective business areas, in particular the effective management of assets within the operating lease business. The headcount increase was also driven by the further development of the GTLK Global international leasing platform in 2019 and the acquisition of National Reserve Bank in December 2019.

#### *Social policy and Employee Benefits*

Pursuant to Russian laws and regulations, STLC contributes to a number of government-run employee benefit programmes, including pension insurance, medical insurance, unemployment insurance and maternity insurance.

The pension insurance of STLC's employees is handled in accordance with the public retirement system established in the Russian Federation (composed of funded and investment parts of the state pension). STLC's social policy offers an extended list of social benefits for employees, including private health insurance schemes, financial support of staff members under special circumstances, and compensation of expenses on recreation activities (sports, fitness, etc.).

The Group provides extensive training programmes for employees in accordance with the staff educational plan which is formed on an annual basis and is aimed at acquiring up-to-date knowledge and improvement of employees' qualifications. The training programmes provide both internal and external professional training for employees at all levels. External short-term training programmes are

provided by a third party and relate to programmes for the improvement of employees' qualifications. Internal training and seminars are held for corporate systems utilisation, as well as with reference to projects involving several departments.

## PRINCIPAL SHAREHOLDERS

STLC is directly owned by the Russian Federation (100 per cent) and is managed through the Ministry of Transport of the Russian Federation.

As at 31 December 2014, the registered, issued and fully paid charter capital comprised RUB 10,001 million. During 2015 STLC increased its charter capital twice on the basis of decisions on additional issuance of shares No. 1-01-32432-H-002D and No. 1-01-32432-H-003D registered with the CBR on 6 November 2014 (report on results of registration published on 31 March 2015) and 20 August 2015, respectively. In January 2015, STLC received a contribution from its shareholders to its share capital in the amount of RUB 4,944 million. In October 2015, the Government of the Russian Federation made a capital injection to STLC's share capital in the amount of RUB 30,000 million. STLC increased its charter capital in the amounts of RUB 12,413 million in 2016 and RUB 1,978 million in 2017 on the basis of a decision on additional issuance of shares No. 1-01-32432-H-004D registered with the CBR on 6 December 2016. The shares of these additional issuances were placed through closed subscription with the Russian Federation. As a result of the additional issuances as of 30 September 2017 the registered, issued and fully paid charter capital of STLC comprised RUB 59,337 million. In December 2017, STLC received capital injections from the Russian Government of RUB 9,300 million in aggregate, and as a result its charter capital increased to RUB 68,637 million as at 31 December 2017. The respective additional share issue was registered by the CBR on 29 January 2018. In December 2019, STLC received another capital injection from the Russian Government of RUB 3,000 million in aggregate, and as a result STLC's charter capital increased to RUB 71,637 million as at 31 December 2019. The respective additional share issue No. 1-01-32432-H-006D was registered by the CBR on 23 January 2020.

STLC is not aware of any arrangements in existence as at the date of this Prospectus which could reasonably be expected to result in a change of control of STLC.

The holders of ordinary shares are entitled to receive dividends as declared from time to time, and are entitled to one vote per share at general shareholder meetings of STLC. The shares in STLC provide an equal volume of rights.



## RELATED PARTY TRANSACTIONS

In accordance with IAS 24 “Related Party Disclosures”, parties are considered to be related if one party has the ability to control the other party or to exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

As at the date of this Prospectus, STLC is directly owned by the Russian Federation (100 per cent) and controlled by it through the Ministry of Transport of the Russian Federation through the Ministry of Industry and Trade which also has representation on the Board of Directors. STLC enters into, and will continue to enter into, transactions with other entities under direct or indirect control of the Russian Government and their affiliates and subsidiaries in the ordinary course of its business, including but not limited to lease of assets, rendering and receiving services, depositing and borrowing money, and use of public utilities.

These transactions are conducted in the ordinary course of business on terms comparable to those with other entities that are not government related.

The Group has established procurement policies, pricing strategy and approval process for purchases and sales of products and services, which are independent of whether the counterparties are government-related entities or not.

The tables below set out the value in millions of Roubles of major transactions entered into by the Group with related parties as at 30 September 2019 and 30 September 2018; as well as 31 December 2018 and 31 December 2017.

	<b>as at 30 September</b>					
	<b>2019</b>			<b>2018</b>		
	<u>Key management personnel</u>	<u>Government owned entities and state bodies</u>	<u>Average effective interest rate, per cent</u>	<u>Key management personnel</u>	<u>Government owned entities and state bodies</u>	<u>Average effective interest rate, per cent</u>
<b>Assets</b>						
Cash and cash equivalents	-	5,040	6.4	-	10,580	4.7
Bank deposits	-	63	6.9	-	978	7.4
Net investment in leases	-	24,574	9.0	-	11,341	11.2
Other receivables	-	5,891	-	-	1,477	-
Derivative financial instruments	-	236	-	-	-	-
Advances to suppliers	-	35,273	-	-	20,930	-

	as at <u>30 September</u>					
	<u>2019</u>			<u>2018</u>		
	<u>Key management personnel</u>	<u>Government owned entities and state bodies</u>	<u>Average effective interest rate, per cent</u>	<u>Key management personnel</u>	<u>Government owned entities and state bodies</u>	<u>Average effective interest rate, per cent</u>
<b>Liabilities</b>						
Loans received	-	127,577	8.7	-	80,960	8.4
Advances received	-	726	-	-	328	-
Derivative financial instruments	-	-	-	-	262	-
Trade and other payables	3	4,098	-	17	1,404	-

	as at <u>31 December</u>					
	<u>2018</u>			<u>2017</u>		
	<u>Key management personnel</u>	<u>Government owned entities and state bodies</u>	<u>Average effective interest rate, per cent</u>	<u>Key management personnel</u>	<u>Government owned entities and state bodies</u>	<u>Average effective interest rate, per cent</u>
<b>Assets</b>						
Cash and cash equivalents	-	6,984	6.5	-	9,377	3.2
Bank deposits	-	1,210	7.1	-	-	-
Net investment in leases	-	11,610	13.6	-	19,550	12.9
Other receivables	-	11,793	-	-	2,332	-
Derivative financial instruments	-	-	-	-	58	-
Advances to suppliers	-	30,439	-	-	8,102	-
<b>Liabilities</b>						
Loans received	-	97,889	8.7	-	42,762	9.4
Derivative financial instruments	-	985	-	-	-	-
Advances received	-	409	-	-	78	-
Trade and other payables	97	4,466	-	2	6,702	-

All such related party transactions are between STLC, other members of the Group, or other entities that are (or were at the time) directly or indirectly owned or controlled by the Russian Government.

The table below sets out the value in millions of Roubles of non-cancellable payments to the suppliers of equipment for leasing purposes entered into by the Group with related parties for the nine month

periods ended 30 September 2019 and 30 September 2018, and the years ended 31 December 2018 and 31 December 2017, all including VAT. All such payments are made by STLC, other members of the Group in favour of the other entities that are (or were at the time) directly or indirectly owned or controlled by the Russian Government.

	<b>30 September 2019</b>	<b>30 September 2018</b>	<b>31 December 2018</b>	<b>31 December 2017</b>
Less than one year	17,040	22,304	34,201	17,235
Between one and five years	16,657	14,781	22,353	15,684
<b>Total</b>	<b>33,697</b>	<b>37,085</b>	<b>56,554</b>	<b>32,919</b>

All related party transactions which the Group has entered into since 31 December 2015 have been in the ordinary course of business.

## GTLK EUROPE DAC

GTLK Europe DAC (**GTLKE**) was incorporated in Ireland as a private limited company on 9 May 2012, registered number 512927, under the Companies Act 1963-2009 (as amended) of Ireland, and was subsequently re-registered as a designated activity company under the Companies Act 2014 (the **Companies Act 2014**) on 7 September 2016 where its name changed to GTLK Europe DAC. GTLKE's principal activity is the purchasing and leasing of aircraft and ships. The ultimate owner of GTLKE is STLC. The registered office of GTLKE is 2 Hume Street, Dublin 2, Ireland and its telephone number is +353 1 486 9500.

The authorised share capital of GTLKE is EUR 10,000 divided into 100 ordinary shares of par value EUR 100 each (the **Shares**). GTLKE has issued 100 Shares which are fully paid and held by STLC and GTLK-Finance.

### Principal Activities

GTLKE is an Irish-based international company engaged in the leasing and trading of a wide range of air and sea vehicles. Its main activities include leasing, trading, remarketing, asset management and consulting on commercial aircraft and ship transactions. As of the date of this Prospectus, GTLKE's aviation portfolio includes 67 narrow and wide body planes, seven of which are managed for a third party on an operating lease basis, GTLKE's shipping portfolio consists of 13 dry cargo vessels, two floating cranes, one tugboat and one oil tanker. As of the date of this Prospectus, GTLKE leased three aircraft on finance leases and 56 aircraft on operating leases. Six recent Airbus A220 aircraft deliveries are presently awaiting lease arrangements.

The principal objects of GTLKE are set forth in clause 3 of its Constitution (as in effect as at the date of this Prospectus) and permit GTLKE, *inter alia*, to lend money and give credit, secured or unsecured, to issue debentures and otherwise to borrow or raise money and to grant security over its property for the performance of its obligations or the payment of money.

GTLKE has incorporated a number of subsidiaries which have, *inter alia*, entered into agreements to purchase assets such as ships and aircraft. GTLKE receives funding from STLC which it loans to its subsidiaries (as at 31 December 2019, the inter-company loans received by the GTLKE Group (as defined below) from STLC amounted to approximately USD 322 million). GTLKE plans to enter into further agreements to purchase additional ships and aircraft. It is expected that these new leases will be profitable and will provide a further cash inflow to the GTLKE Group and GTLKE to support the on-going operations. See "*Business – Aviation Transportation*" for a full discussion of GTLKE's business operations.

As at 31 December 2019, GTLKE had incorporated 54 subsidiaries (together with GTLKE, the **GTLKE Group**), while as at 31 December 2018, GTLKE had 44 subsidiaries.

GTLKE is the parent of the Issuer and guaranteed the 2025 Notes and the 2026 Notes.

The rights of STLC and GTLK-Finance as shareholders of GTLKE are contained in GTLKE's articles of association. GTLKE will be managed in accordance with those articles and with the provisions of Irish law.

### Directors and Company Secretary

GTLKE's Constitution provides that the Board of Directors of GTLKE shall consist of at least four Directors.

The Directors of GTLKE are as follows:

- Roman Lyadov (Russian national), CEO;
- Patrick Flynn;
- Declan Fitzpatrick; and
- Anton Borisevich (Russian national).

The Company Secretary is: Flynn O’Driscoll Secretarial Limited, No. 1 Grants Row, Lower Mount Street, Dublin 2, Ireland.

The registered address of the Directors is 2 Hume Street, Dublin 2, Ireland.

The Directors and the Company Secretary do not hold any direct, indirect, beneficial or economic interest in any of the Shares.

No Director of GTLKE has any actual or potential conflict of interest between its duties to GTLKE and its private interests and/or other duties.

### **Financial Statements**

GTLKE maintains its books and prepares its statutory financial statements in USD in accordance with IFRS as adopted by the EU and as issued by the IASB. GTLKE’s financial year ends on 31 December in each year.

Each year, a copy of the audited consolidated financial statements of the GTLKE Group together with a report of the Directors of GTLKE and the auditors thereon is required to be filed in the Irish Companies Registration Office within 28 days of the annual return date of GTLKE and is available for inspection. The audited consolidated financial statements can be obtained free of charge from the registered office of GTLKE. GTLKE must hold its annual general meetings at least every 15 months and one annual general meeting must be held in each calendar year.

“KPMG”, Chartered Accountants and Statutory Audit Firm of 1 Harbourmaster Place, International Financial Services Centre, Dublin 1, Ireland, were appointed as the independent auditors of GTLKE for the financial years ended 31 December 2017 and 31 December 2018. “KPMG”, Chartered Accountants and Statutory Audit Firm are chartered accountants and are members of the Institute of Chartered Accountants and registered auditors qualified to practise in Ireland.

Grant Thornton Ireland of 13-18 City Quay, Dublin 2, D02 ED70, Ireland, were appointed as the independent auditors of GTLKE for the financial year ending 31 December 2019. Grant Thornton Ireland are chartered accountants and are members of the Institute of Chartered Accountants and registered auditors qualified to practise in Ireland.

## THE ISSUER

The Issuer was incorporated in Ireland as a designated activity company, registered number 619002, under the Companies Act 2014 on 17 January 2018. Its registered office is 2nd Floor, 2 Hume Street, Dublin 2, Ireland, and its telephone number is +353 1486 9500.

The Issuer is a wholly owned subsidiary of GTLKE and its sole purpose is to provide debt financing for the business operations of STLC and GTLKE. The Issuer may engage in all activities necessary, customary, convenient or incidental to the foregoing. Since its incorporation the Issuer has not engaged in any material activities other than relating to the issue of the 2025 Notes, the 2026 Notes and the Notes. The Issuer has no employees.

The authorised share capital of the Issuer is USD 100, divided into 100 ordinary shares of par value USD 1 each. The Issuer has issued 100 shares which are fully paid and held by GTLKE.

### Directors and Company Secretary

The Directors of the Issuer are as follows:

1. Roman Lyadov (Russian national);
2. Declan Fitzpatrick; and
3. Patrick Flynn.

*Roman Lyadov* has also acted as a director of GTLK Europe DAC since June 2017. Roman was previously the advisor to the general director of STLC from January 2016 until June 2017, and was the head of the Foreign Economic Activity Department of Industrial Holding “Avtokomponenty” until 2009. He has also acted as Director in LADA Holding GMBH / AVTOVAZ Group and the Foreign Trade Analytical Centre, and held a senior position as the head of the Analytical Centre from its creation in February 2014. Roman graduated with a Philology BA degree from Saint Petersburg State University in 2000 and attained his MBA at MIRBIS Business School in 2007. In 2011 Roman also completed the Executive Education / General Management Programme at Harvard Business School. Roman Lyadov was appointed as a director of the Issuer on 17 January 2018.

*Declan Fitzpatrick*, FCCA, has been engaged in Financial Services for the past 35 years. He has held senior management positions and acted as Director in several leading financial institutions, including start-ups and joint ventures. He currently acts as an Independent Director, holding several NED positions in Ireland’s Financial Services and Aviation sectors. Declan Fitzpatrick is Irish. Declan Fitzpatrick was appointed as a director of the Issuer on 17 January 2018.

*Patrick Flynn* founded Flynn O’Driscoll Business Lawyers in Dublin in 2002. In 1983 he graduated with an honours BCL law degree from University College Dublin and he was admitted as a solicitor in Ireland in 1987 and in England and Wales in 1996. In 2013 he completed an Advanced Leadership Programme with the Timoney Institute and San Telmo University, Seville, Spain. Pat previously worked with A&L Goodbody, one of Ireland’s largest law firms. He is a former senior executive of Ulster Investment Bank (part of the RBS/NatWest Group) where he specialised in global structured finance transactions involving European and U.S. companies. He has also worked in corporate finance in Ireland and in emerging markets, particularly the Russian Federation, for a UK business. Pat was head of the corporate law department in a top 10 Dublin law firm before leaving to establish Flynn O’Driscoll. He is a member of the Law Society of Ireland, the Dublin Solicitor’s Bar Association, the Irish Russian Business Association, the Irish International Business Network (IIBN), both in Dublin and London and the SME Policy Committee of the British-Irish Chamber of Commerce. Pat’s current

directorships include a number of international aircraft leasing companies based in Dublin and he was appointed in July 2014 by the Minister for Jobs, Enterprise & Innovation to the Board of Directors of Enterprise Ireland for a four year term, which ended in July 2018. Enterprise Ireland is the Irish Government organisation responsible for the development and growth of Irish enterprises in world markets. Patrick Flynn was appointed as a director of the Issuer on 8 March 2018.

The Company Secretary is: Flynn O’Driscoll Secretarial Limited of No. 1 Grants Row, Lower Mount Street, Dublin 2, Ireland.

The business address of the Directors is 2nd Floor, 2 Hume Street, Dublin 2, Ireland.

The Directors and the Company Secretary do not hold any direct, indirect, beneficial or economic interest in any of the shares.

No Director of the Issuer has any actual or potential conflict of interest between its duties to the Issuer and its private interests and/or other duties.

Save as disclosed herein, there has been no material adverse change in the financial position or prospects of the Issuer since 31 December 2018. Save for the issue of the 2025 Notes, the 2026 Notes and the Notes and arrangements related thereto, the Issuer has no borrowings or indebtedness in the nature of borrowings (including loan capital issued or created but unissued), term loans, liabilities under acceptances or acceptance credits, mortgages, charges or guarantees or other contingent liabilities.

The rights of GTLKE as the sole shareholder in the Issuer are contained in the articles of association of the Issuer and the Issuer will be managed in accordance with those articles and with the provisions of Irish law.

### **Financial Statements**

“KPMG”, Chartered Accountants and Statutory Audit Firm of 1 Harbourmaster Place, International Financial Services Centre, Dublin 1, Ireland, were appointed as the independent auditors of the Issuer for the initial accounting period of the Issuer, which commenced on 17 January 2018 (being its date of incorporation) and ended on 31 December 2018. “KPMG”, Chartered Accountants and Statutory Audit Firm are chartered accountants and are members of the Institute of Chartered Accountants and registered auditors qualified to practise in Ireland.

Grant Thornton Ireland of 13-18 City Quay, Dublin 2, D02 ED70, Ireland, were appointed as the independent auditors of the Issuer for the financial year ending 31 December 2019. Grant Thornton Ireland are chartered accountants and are members of the Institute of Chartered Accountants and registered auditors qualified to practise in Ireland.

## TERMS AND CONDITIONS OF THE NOTES

The U.S.\$600,000,000 4.65 per cent guaranteed notes due 2027 of GTLK Europe Capital DAC (the **Issuer**) (the “**Notes**”) are unconditionally and irrevocably guaranteed, on a joint and several basis, by Public Joint Stock Company “State transport leasing company” (STLC) and GTLK Europe DAC (GTLKE and, together with STLC, the **Guarantors** and each, a **Guarantor**). The Notes were authorised by a meeting of the board of directors of the Issuer held on 21 February 2020. The Guarantee (as defined below) of the Notes by GTLKE was authorised by a meeting of the board of directors of GTLKE held on 21 February 2020.

The Notes are constituted by a trust deed dated on or about 10 March 2020 (the **Trust Deed**) between the Issuer, the Guarantors and BNY Mellon Corporate Trustee Services Limited (the **Trustee**, which expression shall include all persons for the time being who are the trustee or trustees under the Trust Deed) as trustee for the Noteholders (as defined below) of the Notes.

These terms and conditions (the **Conditions**) include summaries of, and are subject to, the detailed provisions of the Trust Deed. The Issuer and the Guarantors have entered into a paying agency agreement dated on or about 10 March 2020 (the **Paying Agency Agreement**) with the Trustee, The Bank of New York Mellon, London Branch as principal paying agent (the **Principal Paying Agent** and, together with any other paying agents appointed under the Paying Agency Agreement, the **Paying Agents**), The Bank of New York Mellon SA/NV, Luxembourg Branch as registrar (the **Registrar**) and Transfer Agents named therein (the **Transfer Agents**). The Registrar, Paying Agents and Transfer Agents are together referred to herein as the **Agents**.

Copies of the Trust Deed and the Paying Agency Agreement are available for inspection during normal business hours at the principal office of the Issuer (being at the date hereof 2nd Floor 2 Hume Street, Dublin 2, Ireland), the specified office of the Trustee (being at the date hereof One Canada Square, London E14 5AL, United Kingdom), and at the specified offices of the Agents. The Noteholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and are deemed to have notice of those provisions of the Paying Agency Agreement applicable to them. Capitalised terms used but not defined in these Conditions shall have the respective meanings given to them in the Trust Deed.

### 1 Form and Denomination

The Notes are issued in fully registered form in denominations of U.S.\$200,000 and integral multiples of U.S.\$1,000 in excess thereof (each an **Authorised Denomination**) without coupons attached.

*The Notes will be initially issued in global, fully registered form, and represented by a Global Certificate (the **Global Certificate**), interests in which are to be offered outside the United States pursuant to Regulation S under the Securities Act (**Regulation S**) which will each be exchangeable for Notes in definitive, fully registered form (**Definitive Certificates**) in the limited circumstances specified in the Global Certificate and the Paying Agency Agreement.*

### 2 Guarantee and Status

#### 2.1 Guarantee

Each Guarantor has separately, on a joint and several basis, unconditionally and irrevocably guaranteed the payment when due of all sums expressed to be payable by the Issuer under the Trust Deed and the Notes (each a **Guarantee** and together the **Guarantees**).



## 2.2 Status

The Notes constitute direct, unsubordinated and (subject to Condition 4.1) unsecured obligations of the Issuer and shall at all times rank *pari passu* and rateably without any preference among themselves. Each Guarantee constitutes direct, unsubordinated and (subject to Condition 4.1) unsecured obligations of the relevant Guarantor.

## 3 Register, Title and Transfers

### 3.1 Register

The Registrar shall maintain a Register in respect of the Notes (the **Register**) outside the United Kingdom at the specified office for the time being of the Registrar in accordance with the provisions of the Paying Agency Agreement and shall record in the Register the names and addresses of the Noteholders, particulars of the Notes and all transfers and redemptions thereof. In these Conditions, the **Holder** of a Note means the person in whose name such Note is for the time being registered in the Register (or, in the case of a joint holding, the first named thereof) and **Noteholder** shall be construed accordingly.

### 3.2 Title

Title to the Notes will pass by and upon registration in the Register. The Holder of each Note shall (except as otherwise required by a court of competent jurisdiction or applicable law) be treated as the absolute owner of such Note for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein, any writing on the Definitive Certificate relating thereto (other than the endorsed form of transfer) or any notice of any previous loss or theft of such Definitive Certificate) and no person shall be liable for so treating such Holder.

### 3.3 Transfers

Subject to Conditions 3.6 and 3.7 below, a Note may be transferred in whole or in part in an Authorised Denomination upon surrender of the relevant Definitive Certificate representing that Note, together with the form of transfer (including any certification as to compliance with restrictions on transfer included in such form of transfer endorsed thereon) (the **Transfer Form**), duly completed and executed, at the specified office of a Transfer Agent or of the Registrar, together with such evidence as such Agent or the Registrar may reasonably require to prove the title of the transferor and the authority of the persons who have executed the Transfer Form. Where not all the Notes represented by the surrendered Definitive Certificate are the subject of the transfer, a new Definitive Certificate in respect of the balance not transferred will be delivered by the Registrar to the transferor in accordance with Condition 3.4. Neither the part transferred nor the balance not transferred may be less than U.S.\$200,000.

### 3.4 Registration and delivery of Definitive Certificates

Within five business days of the surrender of a Definitive Certificate in accordance with Condition 3.3 above, the Registrar shall register the transfer in question and deliver a new Definitive Certificate to each relevant Holder at the specified office of the Registrar or (at the request of the relevant Noteholder) at the specified office of a Transfer Agent or (at the request and risk of such relevant Holder) send it by uninsured first class mail (airmail if overseas) to the address specified for the purpose by such relevant Holder.

In the case of the transfer of only a part of the Notes represented by a Definitive Certificate, a new Definitive Certificate in respect of the balance of the Notes not transferred will be so delivered at the specified office of the Registrar or (at the request of the transferor) at the specified office of a Transfer Agent or (at the request and risk of such transferor) send it by uninsured first class mail (airmail if overseas) to the address specified for the purpose by such transferor.

In this Condition 3.4 only, **business day** means a day on which commercial banks are open for business (including dealings in foreign currencies) in the cities where the Registrar and (if applicable) the relevant Transfer Agent have their specified offices.

### **3.5 No Charge**

The registration of the transfer of a Note shall be effected without charge to the Holder or transferee thereof, but against such indemnity from the Holder or transferee thereof as the Registrar or the Transfer Agent, as applicable, may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such transfer.

### **3.6 Closed periods**

Noteholders may not require the transfer of a Note to be registered (i) during the period of 15 days ending on the due date for any payment of principal or interest in respect of such Note and (ii) after any Note has been called for redemption.

### **3.7 Regulations concerning Transfer and Registration**

All transfers of Notes and entries on the Register are subject to the detailed regulations concerning the transfer and registration of Notes set out in Schedule 2 to the Paying Agency Agreement. The regulations may be changed by the Issuer with the prior written approval of the Trustee and the Registrar. A copy of the current regulations will be available at the specified office of the Registrar and will be sent by the Registrar free of charge to any person who so requests and can confirm that they are a Noteholder to the satisfaction of the Registrar.

## **4 Covenants**

So long as any amount remains outstanding hereunder:

### **4.1 Negative Pledge**

None of the Guarantors and the Issuer will, and the Guarantors will not permit any of their respective Subsidiaries to, directly or indirectly, create, incur, assume or suffer to exist any Liens, other than Permitted Liens, on any of its assets, now owned or hereafter acquired, or any income or profits therefrom, securing any Indebtedness, unless, at the same time or prior thereto, the Issuer's obligations under the Notes or the relevant Guarantor's obligations under the relevant Guarantee, as the case may be, are, to the satisfaction of the Trustee (a) secured at least equally and rateably with such other Indebtedness or (b) have the benefit of such other security or other arrangement as the Trustee in its absolute discretion shall deem to be not materially less beneficial to the Noteholders or as shall be approved by an Extraordinary Resolution (as defined in the Trust Deed).

## 4.2 Transactions with Affiliates

None of the Guarantors and the Issuer will, and the Guarantors will not permit any of their respective Subsidiaries to, enter into or permit to exist any transaction or a series of related transactions (including the purchase, sale, lease or exchange of any property, employee compensation arrangements or the rendering of any service) with, or for the benefit of, any Affiliate of any Guarantor, the Issuer or any of their respective Subsidiaries (an **Affiliate Transaction**) unless:

- 4.2.1 the terms of the Affiliate Transaction are no less favourable in any material respect to the relevant Guarantor, the Issuer and such Subsidiary than those that could be obtained at the time of the Affiliate Transaction in arm's length dealings with a Person who is not an Affiliate; and
- 4.2.2 with respect to any transaction or series of related transactions involving an aggregate value in excess of U.S.\$20 million or its U.S. Dollar Equivalent, such Affiliate Transaction has been approved by a majority of the Disinterested Directors or, in the event that there is only one Disinterested Director, by such Disinterested Director with such approval confirming that such Affiliate Transaction complies with Condition 4.2.1 above.,

provided, however, that this provision shall not apply to:

- (i) any employment agreement, collective bargaining agreement or employee benefit arrangements with or in respect of any officer or director of the Guarantors or the Issuer or any of their respective Subsidiaries, including under any stock option or stock incentive plans, entered into in the ordinary course of business;
- (ii) payment of customary fees and compensation to or in respect of employees, officers, directors, consultants or agents in the ordinary course of business;
- (iii) transactions with customers, clients, suppliers, purchasers or sellers of goods or services, in each case, in the ordinary course of business and on terms at least as favourable to the relevant Guarantor or the relevant Subsidiary, as the case may be, as might reasonably be obtained at such time from an unrelated third party;
- (iv) sales of Capital Stock (other than Disqualified Stock) of any Guarantor;
- (v) to the extent otherwise permitted pursuant to these Conditions, the repurchase by any Guarantor or a Subsidiary of its Capital Stock pursuant to an offer that is made to all holders of such Capital Stock;
- (vi) transactions between and among the Guarantors and the Subsidiaries or between and among the Subsidiaries;
- (vii) any suretyships, guarantees or indemnities given by the Issuer, the Guarantors or a Subsidiary to a third party in respect of repayment obligations of the Issuer, the Guarantors or a Subsidiary to that third party for monies borrowed (comprising the Indebtedness); or

- (viii) sales or other transfers or dispositions of accounts receivable or equipment (whether now existing or arising or acquired in the future) and other related assets customarily transferred in a Qualified Securitisation Transaction for the Fair Market Value thereof.

### **4.3 Mergers**

(i) STLC shall not enter into any reorganisation by way of a merger, accession, division, separation, transformation or liquidation, or other bases or procedures for reorganisation contemplated or as may be contemplated from time to time by Russian legislation, as these terms are construed by applicable Russian legislation, or any analogous transaction in any jurisdiction and (ii) STLC shall ensure that no Material Subsidiary (A) enters into any reorganisation (whether by way of a merger, accession, division, separation, transformation or liquidation as these terms are construed by applicable Russian legislation), or (B) in case of a Material Subsidiary incorporated in a jurisdiction other than Russia participates in any type of corporate reconstruction or other analogous event (as determined under the relevant legislation), if (in the case of either (i) or (ii) above) any such reorganisation or other type of corporate reconstruction could reasonably be expected to result in a Material Adverse Effect, unless the surviving entity will be STLC or such Material Subsidiary, as the case may be, or, if different, the surviving entity will succeed to and fully assume such Guarantor's obligations under the relevant Guarantee.

### **4.4 Disposals**

None of the Guarantors and the Issuer will, and the Guarantors will not permit any of their respective Subsidiaries to, directly or indirectly, sell, lease, transfer or otherwise dispose of, by one or more transactions or series of transactions (whether related or not and whether voluntary or involuntary), the whole or any part of its respective assets. This Condition 4.4 does not apply to any sale, lease transfer or other disposal: (i) made in the ordinary course of business of the disposing entity and on an arm's length basis; (ii) such disposal is of an asset not necessary for the ordinary business of the Group, as at the Issue Date, and is made on an arm's-length basis; (iii) made by a Subsidiary to a Guarantor or by a Guarantor or a Subsidiary to a Subsidiary; (iv) such disposal is made on an arm's-length basis and the proceeds of such disposal are invested in assets used in the ordinary business of the Group, as at the Issue Date or exchanged for other assets comparable or superior as to type, value or quality; (v) such disposal is of obsolete or worn-out equipment; (vi) made in respect of any Qualified Securitisation Transaction for the Fair Market Value thereof; or (vii) which would not otherwise have a Material Adverse Effect.

### **4.5 Financial Covenants**

STLC shall at all times:

**4.5.1** ensure that Net Interest Income shall be greater than zero; and

**4.5.2** ensure that Total Equity shall be at least 10 per cent of Total Assets.

### **4.6 Maintenance of Authorisations**

Each of the Guarantors and the Issuer shall, and the Guarantors shall procure that each Material Subsidiary, take all necessary action to obtain and do or cause to be done all things reasonably necessary, in the opinion of the Guarantors or the relevant Material Subsidiary, to ensure the continuance of its corporate existence, its business and intellectual property relating to its business and the Guarantors shall take all necessary action to obtain, and do or

cause to be done all things reasonably necessary to ensure the continuance of, all consents, licences, approvals and authorisations, and make or cause to be made all registrations, recordings and filings, which may at any time be required to be obtained or made in the Russian Federation for the execution, delivery or performance of the Guarantees or for the validity or enforceability thereof.

#### **4.7 Maintenance of Property**

Each of the Guarantors and the Issuer shall, and the Guarantors shall procure that each Material Subsidiary will, use reasonable endeavours to monitor all property leased pursuant to its or their business to ensure that it is maintained and kept in good condition, repair and working order and supplied with all necessary equipment by the relevant lessees and that the relevant lessees carry out all necessary repairs, renewals, replacements, betterments and improvements thereof in connection therewith. If, in the judgment of the relevant Guarantor or any Material Subsidiary, any leased property is not being maintained to such standard, such Guarantor or such Material Subsidiary, as the case may be, will take such action as may be reasonably necessary and practicable to ensure that such leased property is maintained to such standard, except where a failure to do so would not have a Material Adverse Effect.

#### **4.8 Payment of Taxes and Other Claims**

Each of the Guarantors and the Issuer shall, and the Guarantors shall procure that each of their respective Subsidiaries will, pay or discharge or cause to be paid or discharged, before the same shall become overdue and without incurring penalties, (a) all taxes, assessments and governmental charges levied or imposed upon, or upon the income, profits or property of, the Guarantors and their respective Subsidiaries and (b) all lawful claims for labour, materials and supplies which, if unpaid, might by law become a Lien (other than a Permitted Lien) upon the property of the Guarantors or any of their respective Subsidiaries; provided, however, that none of the Guarantors nor any Subsidiary shall be required to pay or discharge or cause to be paid or discharged any such tax, assessment, charge or claim whose amount, applicability or validity is being contested in good faith by appropriate proceedings and for which adequate reserves in accordance with IFRS, as consistently applied or other appropriate provision has been made.

#### **4.9 Maintenance of Insurance**

So long as any amount remains outstanding under the Notes, the Guarantors and the Issuer shall, and the Guarantors shall ensure that each Material Subsidiary will, ensure that those of their assets and properties which are of an insurable nature, and which are leased pursuant to the ordinary course of its or their business, are insured with insurers of good standing against loss or damage as would normally be maintained by a prudent company carrying on similar business to that of the Guarantors, the Issuer or such Material Subsidiaries, as the case may be.

#### **4.10 Financial and Other Information**

**4.10.1** STLC shall as soon as the same become available, but in any event within 150 days after the end of each of its financial years, deliver to the Trustee the Group's IFRS consolidated financial statements for such financial year, audited by the Auditors.

**4.10.2** STLC shall as soon as the same become available, but in any event within 120 days after the end of the first half of each of its financial years, deliver to the Trustee the Group's reviewed IFRS consolidated financial statements for such period, as reviewed by the Auditors.

**4.10.3** STLC shall, so long as any Notes remain outstanding, deliver to the Trustee, without undue delay, such additional information regarding the financial position or the business of STLC and its Subsidiaries as the Trustee may reasonably request including providing certification to the Trustee pursuant to the Trust Deed of any Material Subsidiary and providing such Officer's Certificate as the Trustee may request as to the principal amount of the Notes held by any person (including but not limited to the Issuer, the Guarantors or any of their respective Subsidiaries or any Affiliate of any Guarantor) for the benefit of any Guarantor or any of its respective Subsidiaries or Affiliates.

**4.10.4** STLC shall ensure that each set of the Group's IFRS consolidated financial statements delivered by it pursuant to this Condition 4.10 is:

- (i) prepared in accordance with IFRS as consistently applied;
- (ii) in the case of the statements provided pursuant to Condition 4.10.1, accompanied by a report thereon of the Auditors referred to in Condition 4.10.1; and
- (iii) in the case of the statements provided pursuant to Condition 4.10.2, certified by an Authorised Signatory of STLC as giving a true and fair view of the Group's consolidated financial condition as at the end of the period to which those reviewed IFRS consolidated financial statements of the Group relate and of the results of the Group's operations during such period.

**4.10.5** Following the occurrence of any matter or event specified in these Terms and Conditions where these Terms and Conditions provide for the determination of whether such matter or event has or will have a Material Adverse Effect, STLC shall provide the Trustee with an Officer's Certificate certifying whether or not such matter or event has or will have a Material Adverse Effect and setting out such additional information as may be required to support such determination. The Trustee shall be entitled, without liability to any person, to rely solely on an Officer's Certificate from STLC, certifying whether or not such matter has or will have a Material Adverse Effect.

**4.10.6** STLC shall deliver within 14 days of any written request by the Trustee an Officer's Certificate as to any fact or matter prima facie within the knowledge of STLC as sufficient evidence thereof and a like certificate to the effect that any particular dealing or transaction or step or thing is, in the opinion of the person so certifying, expedient, as sufficient evidence that it is expedient and the Trustee shall not be bound in any such case to call for further evidence or be responsible for any loss that may be occasioned by its failing so to do and shall be entitled, without liability to any person, to rely solely on such an Officer's Certificate or like certificate, as the case may be.

#### **4.11 Change of Business**

None of the Guarantors shall make any material change to the general nature of its business carried on at the Issue Date.

#### **4.12 Ranking of Claims**

The Issuer and each Guarantor shall ensure that at all times the claims of the Noteholders against them under the Notes and the Guarantee, respectively, rank in right of payment at

least *pari passu* with the claims of all their other present and future unsecured creditors save those whose claims are preferred by any bankruptcy, insolvency, liquidation or similar laws of general application.

#### **4.13 Notice of Default**

The Issuer shall deliver to the Trustee, promptly after the occurrence thereof, written notice in the form of an Officer's Certificate of any event which is an Event of Default, or a Potential Event of Default, its status and what action the Issuer and/or the Guarantors is taking or proposes to take with respect thereto.

#### **4.14 Covenant Fall-Away**

From and after the date on which the Notes have reached Investment Grade Status, the Guarantors, the Issuer and the Material Subsidiaries (if any) will be released from their obligations to comply with Conditions 4.2, 4.4 and 4.5, provided that to the extent that at any time that the Notes subsequently cease to have the Investment Grade Status then upon such occurrence the provisions of this Condition 4.14 will immediately cease to apply unless and until the Notes again reach such Investment Grade Status.

### **5 Interest**

The Notes bear interest from and including the Issue Date at the Rate of Interest, payable semi-annually in arrear no later than 10:00 a.m. (New York City time) on 10 March and 10 September in each year (each an **Interest Payment Date**), the first such Interest Payment Date being on 10 September 2020. Each Note will cease to bear interest from the due date for redemption unless, upon due presentation, payment of principal is improperly withheld or refused, in which event interest will continue to accrue (before or after any judgment) at the Rate of Interest to but excluding the date on which payment in full of the principal thereof is made.

In these Conditions, the period beginning on and including the Issue Date and ending on but excluding the first Interest Payment Date and each successive period beginning on and including an Interest Payment Date and ending on but excluding the next succeeding Interest Payment Date is called an **Interest Period**.

Interest in respect of any Note shall be calculated per U.S.\$1,000 in principal amount of the Notes (the **Calculation Amount**). The amount of interest payable per Calculation Amount for any Interest Period shall be calculated by applying the Rate of Interest to the Calculation Amount and dividing the resulting product by two. If interest is required to be calculated for a period of less than a complete Interest Period, it shall be calculated by applying the Rate of Interest to the Calculation Amount and on the basis of a 360-day year consisting of 12 months of 30 days each and, in the case of an incomplete month, the number of actual days elapsed. Interest payable in respect of a Note shall be the product of the figure resulting from such calculations and the amount by which the Calculation Amount is multiplied to reach the denomination of the relevant Note, rounded to the nearest cent (half a cent being rounded upwards).

### **6 Redemption and Purchase**

#### **6.1 Final redemption**

Unless previously redeemed, or purchased and cancelled, the Notes will be redeemed or repaid by the Issuer at 100 per cent of their principal amount thereof together with accrued

interest on 10 March 2027 (the **Maturity Date**). The Notes may not be redeemed at the option of the Issuer other than in accordance with this Condition 6.

## 6.2 Redemption for tax reasons

The Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice to the Noteholders in accordance with Condition 16 (which notice shall be irrevocable) at the principal amount thereof, together with interest accrued to the date fixed for redemption but otherwise without premium or penalty, if (i) the Issuer satisfies the Trustee immediately prior to the giving of such notice that it has or will become obliged to pay additional amounts as provided or referred to in Condition 8.1 as a result of any change in, or amendment to, or clarification of the laws, treaties, protocols, rulings or regulations of any Relevant Jurisdiction, or any change in the published application or official interpretation of such laws, treaties, protocols, rulings or regulations and including the decision of any court governmental agency or tribunal, which change or amendment is announced, enacted or becomes effective on or after 10 March 2020 and (ii) such obligation cannot be avoided by the Issuer taking reasonable measures available to it; provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such additional amounts were a payment in respect of the Notes then due. Prior to the publication of any notice of redemption pursuant to this Condition 6.2, the Issuer shall deliver to the Trustee (x) an Officer's Certificate stating that the obligation referred to in (i) above cannot be avoided by the Issuer taking reasonable measures available to it and the Trustee shall be entitled without further investigation or enquiry to accept such Officer's Certificate as sufficient evidence of the satisfaction of the conditions precedent set out in (ii) above, in which event it shall be conclusive and binding on the Noteholders and (y) an opinion of independent legal advisers of recognised standing to the effect that the Issuer has or will become obliged to pay such additional amounts as a result of such change or amendment or clarification. All Notes in respect of which any such notice of redemption is given under and in accordance with this Condition 6.2 shall be redeemed on the date specified in such notice in accordance with this Condition 6.2.

## 6.3 Redemption on a Change of Control

If a Change of Control Put Event shall have occurred, the holder of a Note will have the option (the **Change of Control Put Option**) to require the Issuer to redeem such Note on the Change of Control Put Settlement Date (as defined below) at 100 per cent of its principal amount together with accrued, but unpaid, interest (if any) to, but excluding, the Change of Control Put Settlement Date.

Promptly upon the Issuer becoming aware that a Change of Control Put Event has occurred, the Issuer shall give notice (a **Change of Control Put Event Notice**) to the Noteholders in accordance with Condition 16 and to the Trustee, specifying the details relating to the occurrence of the Change of Control Put Event and the procedure for exercising the Change of Control Put Option.

In order to exercise the Change of Control Put Option, the holder of a Note must deliver no later than 30 days after the Change of Control Put Event Notice is given (the **Change of Control Put Period**), to the specified office of the Principal Paying Agent, evidence satisfactory to the Principal Paying Agent or Paying Agent of such holder's entitlement to such Note and a duly completed put option notice (a **Change of Control Put Option Notice**) specifying the principal amount of the Notes in respect of which the Change of Control Put Option is exercised, in the form obtainable from the Principal Paying Agent or any Paying Agent. The Principal Paying Agent or Paying Agent will provide such Noteholder with a non-



transferable receipt. On the Business Day following the end of the Change of Control Put Period, the relevant Paying Agent shall notify the Issuer and the Guarantors in writing of the exercise of the Change of Control Put Option specifying the aggregate principal amount of the Notes to be redeemed in accordance with the Change of Control Put Option. Provided that the Notes that are the subject of any such Change of Control Put Option Notice have been delivered to the Principal Paying Agent or a Paying Agent prior to the expiry of the Change of Control Put Period, then the Issuer shall (as provided in Condition 7) redeem all such Notes on the date falling five Business Days after the expiration of the Change of Control Put Period (the **Change of Control Put Settlement Date**). No Change of Control Put Option Notice, once delivered in accordance with this Condition 6.3, may be withdrawn.

The Trustee shall not be required to take any steps to ascertain whether a Change of Control Put Event or any event which could lead to the occurrence of a Change of Control Put Event has occurred and will not be responsible or liable to any holder of a Note for any loss arising from any failure by it to do so. The Trustee may assume until notified otherwise pursuant to this Condition 6.3 that no Change of Control Put Event has occurred and shall have no liability to any person for so doing.

#### **6.4 Optional Redemption at Make-Whole**

The Issuer may, at any time, on giving not less than 30 nor more than 60 days' notice to the Noteholders (in accordance with Condition 16) and to the Trustee and Agents (which notice shall be irrevocable and shall specify the date fixed for prepayment (the "**Make Whole Optional Prepayment Date**")), redeem the Notes in whole (but not in part) at the Make Whole Prepayment Amount (as defined below) plus accrued and unpaid interest on the Notes so redeemed to but excluding the Make Whole Optional Prepayment Date (the "**Make Whole Call Option**").

#### **6.5 Optional Redemption at Par**

The Issuer may, at any time on or after the date falling three months prior to the Maturity Date, on giving not less than 30 nor more than 60 days' notice to the Noteholders (in accordance with Condition 16) and to the Trustee and Agents (which notice shall be irrevocable and shall specify the date fixed for prepayment (the "**Par Optional Prepayment Date**")), redeem the Notes in whole or in part at the principal amount thereof plus accrued and unpaid interest on the Notes so redeemed to but excluding the Par Optional Prepayment Date.

In the case of a partial redemption, the Notes shall be selected for redemption either (a) in accordance with the procedures of the relevant clearing systems; or (b) if the Notes are not held in a clearing system, the Notes to be redeemed shall be selected by drawing of lots in such place and in such manner as is fair and reasonable in the circumstances taking account of prevailing market practices; or (c) if the relevant clearing systems prescribe no method of selection, the Notes shall be redeemed on a pro rata basis according to the holding of each Noteholder; subject, in each case, to compliance with any applicable laws and stock exchange or other relevant regulatory requirements. Neither the Trustee nor any Agent shall have any liability for any selection made pursuant to this Condition 6.5.

Where some but not all of the Notes in respect of which a Definitive Certificate is issued are to be redeemed, the notice of redemption that relates to such Definitive Certificate shall state the principal amount of the Notes to be redeemed, and where applicable, a new Definitive Certificate in a principal amount equal to the unredeemed Notes will be issued in the name of the Noteholder thereof upon cancellation of the original Definitive Certificate. Any such new Definitive Certificate will be delivered to the specified office of an Agent or (at the risk and,

if mailed at the request of the Noteholders otherwise than by ordinary uninsured mail, at the expense of the Noteholder) sent by mail to the Noteholder.

## **6.6 Purchase**

The Issuer, the Guarantors and any of their respective Subsidiaries may at any time purchase Notes in the open market or otherwise at any price. The Notes so purchased, while held by or on behalf of the Issuer, the Guarantors or any of their respective Subsidiaries, shall not entitle the holder to vote at any meetings of the Noteholders and shall not be deemed to be outstanding for the purposes of calculating quorums at meetings of the Noteholders or for the purposes of Conditions 9, 12 or 13.

## **6.7 Cancellation**

All Notes redeemed or purchased pursuant to this Condition 6 shall be either cancelled forthwith, held or, to the extent permitted by law, resold. Any Notes so cancelled may not be reissued.

## **7 Payments**

### **7.1 Principal and other amounts**

Payment of principal and interest in respect of the Notes will be made to the persons shown as the Holder in the Register at the opening of business on the Record Date (as defined below). Payments of all amounts other than as provided in this Condition 7.1 will be made as provided in these Conditions.

### **7.2 Payments**

Each payment in respect of the Notes pursuant to Condition 7.1 shall be made by transfer to a U.S. dollar account maintained by or on behalf of the payee with a bank in New York City and (in the case of interest payable on redemption) upon surrender of the relevant Notes at the specified office of the Principal Paying Agent or at the specified office of a Transfer Agent. Subject to the Principal Paying Agent receiving written notification of the relevant U.S. dollar account details prior to such time, payment instructions (for value on the due date or, if that is not a business day (as defined below), for value the first following day which is a business day) will be initiated on the business day preceding the due date for payment (for value the next business day).

### **7.3 Payments subject to fiscal laws**

All payments in respect of the Notes are subject in all cases to any applicable fiscal or other laws and regulations in the place of payment, but without prejudice to the provisions of Condition 8.

### **7.4 Payments on business days**

A Note may only be presented for payment on a day which is a business day in the place of presentation. If the due date for any payment of principal or interest under this Condition 7 is not a business day, the Holder of a Note shall not be entitled to payment of the amount due until the next following business day and shall not be entitled to any further interest or other payment in respect of any such delay.

## 7.5 Record date

“**Record Date**” means the fifteenth business day, in the place of the specified office of the Registrar, before the due date for the relevant payment.

## 7.6 Agents

The initial Agents and their initial specified offices are listed below. The Issuer reserves the right to vary or terminate the appointment of all or any of the Agents at any time (with the written approval of the Trustee) and appoint additional or other payment or transfer agents, provided that the Issuer will at all times maintain (i) a Principal Paying Agent, (ii) a Registrar, (iii) a Transfer Agent, and (iv) such other agents as may be required by any stock exchange on which the Notes may be listed, in each case, as approved by the Trustee. Notice of any such change will be provided to Noteholders as described in Condition 16.

In acting under the Paying Agency Agreement and in connection with the Notes, the Agents act solely as agents of the Issuer and the Guarantors and (to the extent provided therein) the Trustee and do not assume any obligations towards or relationship of agency or trust for or with any of the Noteholders.

In this Condition 7 only, **business day** means any day on which (i) the London interbank market is open for dealings between the banks generally, and (ii) if on that day a payment is to be made hereunder, commercial banks generally are open for business in Dublin, Moscow, London, New York City, and in the city where the specified office of the relevant Paying Agent is located.

## 8 Taxation

**8.1** All payments of principal and interest in respect of the Notes by or on behalf of the Issuer or by the Guarantors under the Guarantees shall be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatsoever nature imposed, levied, collected, withheld or assessed by or within the Relevant Jurisdiction, unless such withholding or deduction is required by law. In that event, the Issuer or (as the case may be) the Guarantors shall pay such additional amount so as to result in the receipt by the Noteholders of such amounts as would have been received by them if no such withholding or deduction had been required, except that no such additional amounts shall be payable in respect of any Note:

**8.1.1** held by or on behalf of a Holder which is (i) liable to such taxes, duties, assessments or governmental charges in respect of such Note or the Guarantees by reason of its (or its beneficial owners) having some connection with the Relevant Jurisdiction other than the mere holding of such Note or the benefit of the Guarantees or (ii) able to avoid such deduction or withholding by satisfying any statutory requirements or by making a declaration of non-residence or other claim to the relevant taxing authority; or

**8.1.2** where (in the case of a payment of principal or interest on redemption or at maturity) the relevant Definitive Certificate is surrendered for payment more than 30 days after the Relevant Date except to the extent that the relevant Holder would have been entitled to such additional amounts if it had surrendered the relevant Definitive Certificate on the last day of such period of 30 days; or

**8.1.3** held by or on behalf of a Noteholder who would have been able to avoid such withholding or deduction by arranging to receive the relevant payment through

another Paying Agent in a member state of the European Union (which, for these purposes, includes the United Kingdom); or

8.1.4 any combination of the above.

8.2 In these Conditions, **Relevant Date** means whichever is the later of (a) the date on which the payment in question first becomes due and (b) if any payment is improperly withheld or refused, the date on which payment in full of the amount outstanding is received for the account of the Principal Paying Agent or the Trustee or (if earlier) the date on which notice to that effect has been given to the Noteholders by the Issuer in accordance with Condition 16.

8.3 Any reference in these Conditions to principal or interest shall be deemed to include any additional amounts in respect of principal or interest (as the case may be) which may be payable under Condition 8 or any undertaking given in addition to or in substitution for it under the Trust Deed.

## 9 Events of Default

The Trustee at its discretion may, and if so requested in writing by Noteholders holding not less than 25 per cent of the principal amount of the Notes then outstanding or if so directed by an Extraordinary Resolution (as defined in the **Trust Deed**) shall (subject in each case to its being indemnified and/or secured and/or pre-funded to its satisfaction), give notice to the Issuer that the Notes are immediately due and repayable at their principal amount together with accrued interest if any of the following events occurs and is continuing (each an **Event of Default**):

9.1.1 the Issuer fails to pay within five Business Days any amount payable under the Notes as and when such amount becomes payable in the currency and in the manner specified herein; or

9.1.2 the Issuer or the Guarantors, as the case may be, fail to perform any of their respective other obligations under the Notes, the Guarantees or the Trust Deed, as the case may be, provided (except where in any such case that failure is not (in the opinion of the Trustee) capable of remedy when no such notice as in hereinafter mentioned will be required) that failure continues for the period of 30 days (or such longer period as the Trustee may permit) following the submission by the Trustee to the Issuer or the Guarantors, as the case may be, of notice in writing requesting the same to be remedied; or

9.1.3 any Guarantor or any Material Subsidiary fails to pay any of its Indebtedness as and when such Indebtedness becomes payable, taking into account any applicable grace period or (ii) any Indebtedness becomes due and payable prior to its stated maturity otherwise than at the option of such Guarantor or such Material Subsidiary or (provided that no event of default, howsoever described, has occurred) any person or entity entitled to such Indebtedness; provided, that the total amount of such Indebtedness unpaid or becoming due and payable exceeds U.S.\$20 million (or its equivalent in another currency); or

9.1.4 (A) in the case of STLC and any of the Material Subsidiaries incorporated in the Russian Federation, the occurrence of any of the following events: (i) any of STLC, or any of the Material Subsidiaries seeking or consenting to the introduction of proceedings for its liquidation or the appointment of a liquidation commission (*likvidatsionnaya komissiya*) or a similar officer of any of STLC, or any of the Material Subsidiaries as the case may be; (ii) the presentation or filing of a petition in

respect of any of STLC or the Material Subsidiaries in any court of competent jurisdiction, arbitration court or before any agency alleging, or for, the bankruptcy, insolvency, dissolution, liquidation (or any analogous proceedings) of any of STLC or the Material Subsidiaries (ignoring any petition that is not accepted by such court or agency for review on its merits), unless such petition is demonstrated to the satisfaction of the court or agency to be vexatious or frivolous or is being contested in good faith and with due diligence and is discharged or struck out within 40 Business Days; (iii) the institution of the supervision (*nablyudeniye*), financial rehabilitation (*finansovoye ozdorovleniye*), external management (*vneshneye upravleniye*), bankruptcy management (*konkursnoye proizvodstvo*) over STLC or any of the Material Subsidiaries, (iv) the entry by STLC or any of the Material Subsidiaries into, or the agreeing by STLC or any of the Material Subsidiaries to enter into, amicable settlement (*mirovoye soglasheniye*) with its creditors, as such terms are defined in the Federal Law of Russia No. 127-FZ “On Insolvency (Bankruptcy)” dated 26 October, 2002 (as amended or replaced from time to time); and/or (v) any judicial liquidation in respect of STLC or any of the Material Subsidiaries; and (B) in the case of any Material Subsidiaries incorporated otherwise than in the Russian Federation, the occurrence of any of the following events: (i) any such Material Subsidiary becomes insolvent or is unable to pay its debts generally as they fall due; (ii) one or more administrator(s) or a liquidator of any such Material Subsidiary is appointed over the whole or substantially the whole or (in the opinion of the Trustee) any material part of the undertaking, assets or revenues of any such Material Subsidiary; (iii) any such Material Subsidiary makes a general assignment to, or a general arrangement or general composition with or for the benefit of, all or substantially all of its creditors or declares a moratorium in respect of all or substantially all of its Indebtedness; or (iv) any such Material Subsidiary ceases or threatens to cease to carry on all or substantially all of its business, except for the purpose of and followed by a reconstruction, amalgamation, reorganisation, merger or consolidation of any such Material Subsidiary, whereby the undertakings and assets of any such Material Subsidiary are transferred to or otherwise vested in such Material Subsidiary; or

- 9.1.5** any Guarantor or any Material Subsidiary commences negotiations with its creditors generally with a view to the general readjustment or rescheduling of its indebtedness or makes a general assignment for the benefit of or a composition with its creditors generally; provided that in the case of a Material Subsidiary the same could have a Material Adverse Effect; or
- 9.1.6** any governmental authorisation necessary for the performance of any obligation of the Issuer or the Guarantors under the Notes, the Guarantees or the Trust Deed, as the case may be, fails to be in full force and effect; or
- 9.1.7** any governmental authority or court takes any action that has a Material Adverse Effect on the Issuer’s or the Guarantors’ ability to perform their respective obligations under the Notes, the Guarantees or the Trust Deed, as the case may be, or the validity or enforceability of the Notes or the Guarantees, as the case may be, or the rights and remedies of the Noteholders thereunder; or
- 9.1.8** any execution or distress is levied against, or an encumbrancer takes possession of, the whole or any material part of, the assets of any Guarantor or any of the Material Subsidiaries having a Fair Market Value of more than U.S.\$20 million or the equivalent thereof in any other currency or any event occurs which under the laws of any jurisdiction has a similar or analogous effect unless such execution, distress, enforcement of a Lien or similar or analogous event is being contested in good faith

by any Guarantor or such Material Subsidiary, as the case may be, and is not removed, paid out, stayed or discharged within 45 days of such execution, distress being levied, taking of possession or similar or analogous act, as the case may be; or

**9.1.9** there are unsatisfied final judgments, decrees or orders of courts of competent jurisdiction or other appropriate and competent law-enforcement bodies for the payment of money against any Guarantor and/or the Material Subsidiaries and there is a period of 45 days following the entry thereof during which such judgment, decree or order is not appealed, discharged, waived or the execution thereof stayed and such default continues for 10 days after the notice specified in Condition 4.13; or

**9.1.10** any seizure, compulsory acquisition, expropriation, nationalisation without appropriate compensation or renationalisation after the date of these Conditions by or under the authority of a government authority of all or part (the IFRS book value of which is 5 per cent or more of the book value of the whole) of the assets of any Guarantor or any Material Subsidiary; or

**9.1.11** any Guarantor or any of the Material Subsidiaries ceases to carry on the principal business they each carried on at the date hereof;

**9.1.12** at any time it is or becomes unlawful for the Issuer or any Guarantor to perform or comply with any or all of their respective obligations under the Notes, the Guarantees or the Trust Deed, as the case may be, or any of such obligations are not, or cease to be, legal, valid, binding and enforceable; or

**9.1.13** any event occurs which under the laws of any relevant jurisdiction has an analogous effect to any of the events referred to in any of the foregoing paragraphs.

## **10 Prescription**

Claims for the payment of principal and interest in respect of any Note shall be prescribed and become void unless made within 10 years (for claims for the payment of principal) or five years (for claims for the payment of interest) of the appropriate Relevant Date.

## **11 Replacement of Definitive Certificates**

If a Note shall become mutilated, defaced, lost, stolen or destroyed it may, subject to all applicable laws and regulations and requirements of the Stock Exchange, be replaced at the specified offices of the Registrar or the Transfer Agent on payment of such costs, expenses, taxes and duties as may be incurred in connection therewith and on such terms as to evidence, security and indemnity and otherwise as may reasonably be required by or on behalf of the Registrar or the Transfer Agent. Mutilated or defaced Notes must be surrendered before replacements will be issued.

## **12 Meetings of Noteholders, Modification and Waiver**

### **12.1 Meetings of Noteholders**

The Trust Deed contains provisions for convening meetings of Noteholders to consider any matter affecting their interests, including any modification of, or any arrangement in respect of, the Notes or the Trust Deed. Noteholders will be entitled to one vote per U.S.\$1,000 in principal amount of Notes held by them. Such a meeting may be convened by the Issuer, any Guarantor or the Trustee and shall be convened by the Trustee, subject to its being indemnified and/or secured and/or prefunded to its satisfaction, upon the request in writing of

holders of the Notes holding not less than one tenth of the aggregate principal amount of the outstanding Notes. The Trust Deed provides that special quorum provisions apply for meetings of Noteholders convened for the purpose of, *inter alia* (i) altering the terms and conditions relating to the maturity, redemption, prepayment and repayment or postponing any date for payment of interest, (ii) reducing the principal amount of the Notes, (iii) varying the amounts corresponding to interest or principal payable in respect of the Notes or the method of determining such payments in respect of the Notes, (iv) varying the currency in which payments under the Notes are to be made, (v) modifying or cancelling the Guarantees, (vi) amending the provisions of Schedule 3 of the Trust Deed concerning the quorum required at any meeting of the Noteholders or any adjourned such meeting thereof or concerning the majority required to pass an Extraordinary Resolution, (vii) amending the proviso to paragraph 6 of Schedule 3 of the Trust Deed, or (viii) giving a direction pursuant to Clause 7.1(i) of the Trust Deed, in which case the necessary quorum will be one or more persons holding or representing not less than 75 per cent, or at any adjourned meeting not less than 50 per cent, in principal amount of the Notes for the time being outstanding. Any resolution duly passed at a meeting of Noteholders will be binding on all the Noteholders, whether present or not.

The Trust Deed provides that a resolution in writing signed by or on behalf of the holders of not less than 75 per cent in principal amount of the Notes outstanding shall for all purposes be as valid and effective as an Extraordinary Resolution passed at a meeting of Noteholders duly convened and held. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders.

## **12.2 Modification and Waiver**

The Trustee may agree, without the consent of the Noteholders, to any modification of the Notes, the Trust Deed or the Paying Agency Agreement which in the opinion of the Trustee is of a formal, minor or technical nature, is made to correct a manifest error or (except as mentioned in the Trust Deed) in the opinion of the Trustee is not materially prejudicial to the interests of the Noteholders. The Trustee may also waive or authorise or agree to the waiving or authorising of any breach or proposed breach of any of the provisions of the Notes or the Trust Deed, which is in the opinion of the Trustee not materially prejudicial to the interests of the Noteholders. Any such modification, waiver, authorisation or determination shall be subject to such conditions as the Trustee may determine and shall be binding on the Noteholders and, unless the Trustee agrees otherwise, shall be promptly notified to the Noteholders in accordance with Condition 16.

## **12.3 Entitlement of the Trustee**

In connection with the exercise of any of its functions (including but not limited to those referred to in this Condition), the Trustee shall have regard to the interests of the Noteholders as a class and, in particular, shall not have regard to the consequences of such exercise for individual Noteholders (including but not limited to resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory). No Noteholder is entitled to claim from the Issuer, any Guarantor or the Trustee any indemnification or payment in respect of any tax consequence of any such exercise upon individual Noteholders.

## **13 Enforcement**

At any time after the Notes become due and payable, the Trustee may, at its discretion and without further notice, institute such proceedings or take such steps or actions against the Issuer and/or any Guarantor as it may think fit to enforce the terms of the Trust Deed and/or

the Notes, but it need not take any such proceedings and nor shall the Trustee be bound to take, or omit to take any step or action (including instituting such proceedings, steps or actions) unless (a) it shall have been so directed by an Extraordinary Resolution or so requested in writing by Noteholders holding at least 25 per cent in principal amount of the Notes outstanding and (b) it shall have been indemnified and/or secured and/or prefunded to its satisfaction. No Noteholder may proceed directly against the Issuer or any Guarantor unless the Trustee, having become bound so to proceed, fails to do so within a reasonable time and such failure is continuing.

#### **14 Indemnification and Removal of the Trustee**

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility including provisions relieving it from taking proceedings or steps or actions to enforce payment unless indemnified and/or secured and/or prefunded to its satisfaction, and to be paid its costs and expenses in priority to any claims of Noteholders. In addition, the Trustee is entitled to enter into business transactions with the Issuer, any Guarantor and any entity related to the Issuer or any Guarantor without accounting for any profit.

The Trustee's responsibilities are solely those of trustee for the Noteholders on the terms of the Trust Deed. Accordingly, the Trustee makes no representations and assumes no responsibility for the validity or enforceability of the Notes or for the performance by the Issuer or any Guarantor of its obligations under or in respect of the Notes and the Trust Deed. The Trustee is entitled to assume that each of the Issuer and each Guarantor is performing all of its obligations pursuant to the Notes and the Trust Deed (and shall have no liability for doing so) until it has actual knowledge to the contrary.

The Trustee may rely without liability to Noteholders on any certificate or report prepared by auditors, accountants or any other expert pursuant to the Trust Deed, whether or not addressed to the Trustee and whether or not the auditors', accountants' or expert's liability in respect thereof is limited by a monetary cap or otherwise. The Trust Deed provides that the Noteholders shall together have the power, exercisable by Extraordinary Resolution, to remove the Trustee (or any successor trustee or additional trustees) provided that the removal of the Trustee or any other trustee shall not become effective unless there remains a trustee in office after such removal.

#### **15 Further Issues**

The Issuer may from time to time, without the consent of the Noteholders, create and issue further securities having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest, the date of issue and the amount of principal) and so that such further issue shall be consolidated and form a single series with the outstanding Notes. References in these Conditions to the Notes include (unless the context requires otherwise) any other securities issued pursuant to this Condition 15 and forming a single series with the Notes. Any such other securities shall be constituted by a deed supplemental to the Trust Deed and will benefit from a guarantee substantially in the form of the Guarantees given in respect of these Notes. The Trust Deed contains provisions for convening a single meeting of the Noteholders for the holders of securities of other series where the Trustee so decides. Application will be made by the Issuer for such further securities to be listed and admitted to trading on the stock exchange on which the Notes are from time to time listed or quoted.



## **16 Notices**

Notices to the Noteholders shall be valid if sent to them by first class mail (airmail if overseas) at their respective addresses on the Register or by any means designated from time to time by any clearing system on which trades in Notes settle. Any such notice shall be deemed to have been given on the fourth day after the date of mailing. In addition, so long as the Notes are listed on the Stock Exchange and the rules or guidelines of that exchange so require, notices will be published via the companies announcements office of the Stock Exchange. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the first date on which publication is made.

## **17 Currency Indemnity**

If any sum due from the Issuer in respect of the Notes or the Guarantors in respect of the Guarantees or any order or judgment given or made in relation thereto has to be converted from the currency (the **first currency**) in which the same is payable under these Conditions or such order or judgment into another currency (the **second currency**) for the purpose of (a) making or filing a claim or proof against the Issuer or any Guarantor, (b) obtaining an order or judgment in any court or other tribunal or (c) enforcing any order or judgment given or made in relation to the Notes or any Guarantee, the Issuer, failing whom the Guarantors, shall indemnify each recipient, on the written demand of such recipient addressed to the Issuer and the Guarantors and delivered to the Issuer and the Guarantors or to the specified office of the Registrar, against any loss suffered as a result of any discrepancy between (i) the rate of exchange used for such purpose to convert the sum in question from the first currency into the second currency and (ii) the rate or rates of exchange at which such recipient may in the ordinary course of business purchase the first currency with the second currency upon receipt of a sum paid to it in satisfaction, in whole or in part, of any such order, judgment, claim or proof.

This indemnity constitutes a separate and independent obligation of the Issuer or, as the case may be, the Guarantors and shall give rise to a separate and independent cause of action, will apply irrespective of any indulgence granted by any Noteholder or any other person and will continue in full force and effect despite any judgment, order, claim or proof for a liquidated amount in respect of any sum due under the Trust Deed and/or the Notes or any other judgment or order.

## **18 Contracts (Rights of Third Parties) Act 1999**

No person shall have any right to enforce any term or condition of the Notes under the Contracts (Rights of Third Parties) Act 1999 except and to the extent, if any, that the Notes expressly provide for such Act to apply to any of their terms.

## **19 Governing Law and Arbitration**

**19.1** The Trust Deed, the Notes and these Conditions and any non-contractual obligations arising out of or in connection therewith shall be governed by and interpreted in accordance with English law.

**19.2** Any dispute, claim or difference of whatever nature arising out of or in connection with the Trust Deed, the Notes and these Conditions (including a dispute regarding the existence, validity or termination of the Trust Deed, the Notes or these Conditions or a dispute relating to non-contractual obligations arising out of or in connection with the Trust Deed, the Notes and these Conditions) (a **Dispute**) shall be referred to and finally resolved by arbitration

administered by the LCIA (formerly the London Court of International Arbitration) under the rules of the LCIA (the **Rules**).

**19.2.1** The arbitral tribunal shall consist of three arbitrators. The claimant(s), irrespective of number, shall nominate jointly one arbitrator. The respondent(s), irrespective of number, shall nominate jointly the second arbitrator. The third arbitrator, who shall serve as Chairman, shall be nominated by agreement of the two party-nominated arbitrators. Failing such agreement within 15 days of the confirmation of the appointment of the second arbitrator, the third arbitrator shall be appointed by the LCIA as soon as possible. For the avoidance of doubt, for the purpose of Article 8.1 of the Rules, the claimant(s), irrespective of number, and the respondent(s), irrespective of number, shall constitute two separate sides for the formation of the arbitral tribunal.

**19.2.2** In the event that the claimant(s) or the respondent(s) fail to nominate an arbitrator in accordance with the Rules, such arbitrator shall be nominated by the LCIA as soon as possible, preferably within 15 days of such failure. In the event that the respondent(s) or both the claimant(s) and the respondent(s) fail to nominate an arbitrator in accordance with the Rules, all three arbitrators shall be nominated and appointed by the LCIA as soon as possible, preferably within 15 days of such failure, and such arbitrators shall then designate one amongst them as Chairman.

**19.2.3** The seat of arbitration shall be London, England and the language of the arbitration shall be English.

**19.2.4** If more than one arbitration is commenced under the Trust Deed, the Notes or these Conditions and any party contends that two or more such arbitrations are so closely connected that it is expedient for them to be resolved in one set of proceedings, the arbitral tribunal appointed in the first filed of such proceedings (the **First Tribunal**) shall have the power to determine, provided no date for the hearing on the merits of the Dispute in any such arbitrations has been fixed, that the proceedings shall be consolidated.

**19.2.5** The tribunal in such consolidated proceedings shall be selected as follows:

- (i) the parties to the consolidated proceedings shall agree on the composition of the tribunal; and
- (ii) failing such agreement within 30 days of consolidation being ordered by the First Tribunal, the LCIA shall appoint all members of the tribunal within 30 days of a written request by any of the parties to the consolidated proceedings.

**19.3** Each Guarantor undertakes irrevocably to appoint Law Debenture Corporate Services Limited at Fifth Floor, 100 Wood Street, London EC2V 5EX, United Kingdom as agent to accept service of process and any other documents in proceedings in England or in any legal action or proceedings arising out of or in connection with these Conditions, the Trust Deed or the Notes (the **Guarantors' Process Agent**), provided that:

**19.3.1** service upon the Guarantors' Process Agent shall be deemed valid service upon a Guarantor whether or not the process is forwarded to or received by such Guarantor;

**19.3.2** the Guarantors shall inform the Trustee, in writing, of any change in the address of the Guarantors' Process Agent within 28 days of such change;

- 19.3.3** if the Guarantors' Process Agent ceases to be able to act as a process agent or to have an address in England, each Guarantor irrevocably agrees to appoint a new process agent in England acceptable to the Trustee and to deliver to the Trustee within 14 days a copy of a written acceptance of appointment by the new process agent; and
- 19.3.4** nothing in these Conditions shall affect the right to serve process in any other manner permitted by law.
- 19.4** The Issuer undertakes irrevocably to appoint Law Debenture Corporate Services Limited at Fifth Floor, 100 Wood Street, London EC2V 5EX, United Kingdom as agent to accept service of process and any other documents in proceedings in England or in any legal action or proceedings arising out of or in connection with these Conditions, the Trust Deed or the Notes (the **Issuer Process Agent**), provided that:
- 19.4.1** service upon the Issuer Process Agent shall be deemed valid service upon the Issuer whether or not the process is forwarded to or received by the Issuer;
- 19.4.2** the Issuer shall inform the Trustee, in writing, of any change in the address of the Issuer Process Agent within 28 days of such change;
- 19.4.3** if the Issuer Process Agent ceases to be able to act as a process agent or to have an address in England, STLC irrevocably agrees to appoint a new process agent in England acceptable to the Trustee and to deliver to the trustee within 14 days a copy of a written acceptance of appointment by the new process agent; and
- 19.4.4** nothing in these Conditions shall affect the right to serve process in any other manner permitted by law.
- 19.5** To the extent that the Issuer or any Guarantor may now or hereafter be entitled, in any jurisdiction in which any legal action or proceeding may at any time be commenced pursuant to or in accordance with these Conditions, to claim for itself or any of its undertaking, properties, assets or revenues present or future any immunity (sovereign or otherwise) from suit, jurisdiction of any court, attachment prior to judgment, attachment in aid of execution of a judgment, execution of a judgment or award or from set-off, banker's lien, counterclaim or any other legal process or remedy with respect to its obligations under these Conditions and/or to the extent that in any such jurisdiction there may be attributed to the Issuer or any Guarantor any such immunity (whether or not claimed), the Issuer and each Guarantor hereby irrevocably agrees not to claim, and hereby waive, any such immunity.
- 19.6** The Issuer and each Guarantor irrevocably and generally consents in respect of any proceedings anywhere to the giving of any relief or the issue and service on it of any process in connection with those proceedings including, without limitation, the making, enforcement or execution against any assets whatsoever (irrespective of their use or intended use) of any order or judgment which may be made or given in those proceedings.

## **20 Definitions**

In these Conditions the following terms have the meaning given to them in this Condition 20:

**Accounting Standards** means IFRS or any other internationally recognised set of accounting standards deemed equivalent to IFRS by the Committee of European Securities Regulators from time to time;

**Agency** means any agency, authority, central bank, department, government, legislature, minister, official or public statutory person (whether autonomous or not) of, or of the government of, any state or supra-national body;

**Affiliate** of any specified person means (i) any other person, directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified person or (ii) any other person who is a director or officer (a) of such specified person or (b) of any person described in (i) above or, in relation to STLC, any other Person who is an “affiliate” of such Person within the meaning of Russian joint-stock company and competition law. For the purpose of this definition, **control** when used with respect to any person means the power to direct the management and policies of such person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise; and the terms **controlling** and **controlled** have meanings correlative to the foregoing;

**Auditors** means, the auditors from time to time of the Group’s consolidated financial statements under IFRS or, if they are unable or unwilling to carry out any action requested of them hereof, such other internationally recognised firm of accountants as may be nominated by STLC;

**Authorised Signatory** means, in relation to the Issuer and GTLKE, a duly authorised attorney or director of the Issuer or GTLKE, respectively, and, in relation to STLC, any person who is duly authorised (in such manner as may be reasonably acceptable to the Trustee) and in respect of whom the Trustee has received a certificate signed by a director or another Authorised Signatory of STLC setting out the name and signature of such person and confirming such person's authority to act;

**Board of Directors** means, as to any Person, the board of directors or other equivalent executive body of such Person or any duly authorised committee thereof;

**Business Day** means, other than for the purposes of Condition 3.4 and Condition 7, a day on which commercial banks generally are open for business in London, New York City, Moscow, Dublin and in the city where the specified office (as defined in the Paying Agency Agreement) of the Principal Paying Agent is located;

**Capital Stock** means, with respect to any Person, any and all shares, interests (including partnership interests), rights to purchase, warrants, options, participations or other equivalents (however designated, whether voting or non-voting) of such Person’s equity, including any Preferred Stock of such Person, whether now outstanding or issued after the Issue Date, including without limitation, all series and classes of such Capital Stock, but excluding any debt securities convertible into or exchangeable for such Capital Stock;

**Change of Control** means the Russian Federation ceasing to own or control (directly or indirectly) in excess of 75 per cent of the issued and outstanding voting share capital of any of the Guarantors, and the occurrence of a Change of Control shall be a **Change of Control Put Event**;

**Comparable Treasury Issue** means the United States Treasury Security selected by the Determination Agent as having a maturity comparable to the remaining term of the Notes from the Make Whole Optional Prepayment Date to the Maturity Date, that would be utilised, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of a maturity most nearly equal to the Maturity Date;

**Comparable Treasury Price** means, with respect to any Make Whole Optional Prepayment Date, the average of three, or such lesser number as is obtained by the Determination Agent, Reference Treasury Dealer Quotations for the Make Whole Optional Prepayment Date;

**Determination Agent** means a financial adviser or bank being a reputable financial institution which is independent of the Issuer, appointed by the Issuer and at the Issuer's expense for the purpose of determining the Make Whole Prepayment Amount;

**Disinterested Directors** means, with respect to any transaction or series of related transactions, a member of the Board of Directors of the Issuer, the relevant Guarantor or its relevant Subsidiary who (x) does not have any material direct or indirect financial interest in or with respect to such transaction or series of related transactions, (y) has not and whose Affiliates or affiliated firm has not, at any time during the twelve months prior to the taking of any action hereunder, directly or indirectly, received, or entered into any understanding or agreement to receive, any compensation, payment or other benefit, of any type or form, from any Guarantor or any of its Affiliates, other than customary directors' fees for serving on the Board of Directors of any Guarantor or any Affiliate and reimbursement of out-of-pocket expenses for attendance at such Guarantor's or Affiliate's board and board committee meetings and (z) in relation to STLC, is a disinterested director within the meaning of the Russian joint-stock company law. A Person shall not be ineligible to constitute a Disinterested Director solely as a result of such Person owning any equity interests of the Issuer, the Guarantors or any of their respective Subsidiaries or acting as an officer, director or employee of the Issuer, the Guarantors or any of their respective Subsidiaries;

**Disqualified Stock** means, with respect to any Person, any Capital Stock which by its terms (or by the terms of any security into which it is convertible or for which it is exchangeable at the option of the holder) or upon the happening of any event:

- (a) matures or is mandatorily redeemable (other than redeemable only for Capital Stock of such Person which is not itself Disqualified Stock) pursuant to a sinking fund obligation or otherwise;
- (b) is convertible or exchangeable at the option of the holder for Indebtedness or Disqualified Stock; or
- (c) is mandatorily redeemable or must be purchased upon the occurrence of certain events or otherwise, in whole or in part,

in each case on or prior to the first anniversary hereof.

The amount of any Disqualified Stock that does not have a fixed redemption, repayment or repurchase price will be calculated in accordance with the terms of such Disqualified Stock as if such Disqualified Stock were redeemed, repaid or repurchased on any date on which the amount of such Disqualified Stock is to be determined pursuant to the terms hereof; provided, however, that if such Disqualified Stock could not be required to be redeemed, repaid or repurchased at the time of such determination, the redemption, repayment or repurchase price will be the book value of such Disqualified Stock as reflected in the most recent financial statements of such Person;

**Fair Market Value** means, with respect to any asset or property, the price which could be negotiated in an arm's length, free market transaction, for cash, between a willing seller and a willing and able buyer, neither of whom is under undue pressure or compulsion to complete the transaction. Fair Market Value will, in relation to any transaction or series of related transactions with an aggregate value in excess of U.S.\$20 million, other than of any asset with

a public trading market, be determined in good faith by a majority of the Disinterested Directors or, in the event that there is only one Disinterested Director, by such Disinterested Director (whose determination shall be conclusive if evidenced by a resolution of the Board of Directors);

**Fitch** means Fitch Ratings Limited or any successor to its ratings business;

**Group** means STLC and its Subsidiaries taken as a whole;

**guarantee** means any obligation, contingent or otherwise, of any Person directly or indirectly guaranteeing any Indebtedness of any other Person and any obligation, direct or indirect, contingent or otherwise, of such Person:

- (a) to purchase or pay (or advance or supply funds for the purchase or payment of) such Indebtedness of such other Person (whether arising by virtue of partnership arrangements, or by agreement to keep well, to purchase assets, goods, securities or services, to take or pay, or to maintain financial statement conditions or otherwise); or
- (b) entered into for purposes of assuring in any other manner the obligee of such Indebtedness of the payment thereof or to protect such obligee against loss in respect thereof (in whole or in part),

provided, however that “guarantee” shall not include endorsements for collection or deposit in the ordinary course of business. “Guarantee” used as a verb has a corresponding meaning;

**H.15(519)** means the weekly statistical release designated as H.15(519), or any successor publication, published by the board of governors of the Federal Reserve System at <http://www.federalreserve.gov/releases/H15> or any successor site or publication;

**IFRS** means International Financial Reporting Standards issued by the International Accounting Standards Board (the **IASB**) and interpretations issued by the International Financial Reporting Interpretations Committee of the IASB, consistently applied and which are in effect from time to time;

**Indebtedness** means, without duplication, any indebtedness, in respect of any Person for, or in respect of, moneys borrowed or raised including, without limitation, any amount raised by acceptance under any acceptance credit facility; any amount raised pursuant to any note purchase facility or the issue of bonds, notes, debentures, loan stock or any similar instrument; any amount raised pursuant to any issue of shares which are expressed to be redeemable either on a compulsory basis or at the option of the shareholder; any amount raised under any other transaction (including, but without limitation to, any forward sale or purchase agreement) having the economic or commercial effect of a borrowing; and the amount of any liability in respect of any guarantee or indemnity for any of the items referred to above;

**Investment Grade Rating** means a rating equal to or higher than (a) BBB- (or the equivalent) by Fitch, (b) Baa3 (or the equivalent) by Moody’s, (c) BBB- (or the equivalent) by Standard & Poor’s or (d) if any of Moody’s, Fitch or Standard & Poor’s cease to publish ratings of securities, an equivalent rating by an internationally recognised statistical rating organisation;

**Investment Grade Status** means that the Notes have an Investment Grade Rating from any two Ratings Agencies;

**Issue Date** means 10 March 2020;

**Lien** means any mortgage, pledge, encumbrance, easement, restriction, covenant, right-of-way, servitude, lien, charge or other security interest or adverse claim of any kind (including, without limitation, anything analogous to any of the foregoing under the laws of any jurisdiction and any conditional sale or other title retention agreement or lease in the nature thereof);

**Make Whole Prepayment Amount** means in respect of each Note, (a) the principal amount of such Note or, if this is higher (b) the amount equal to the sum of the present value of the principal amount of such Note, together with the present values of the scheduled interest payments from the Make Whole Optional Prepayment Date to the Maturity Date (not including any portion of such interest payments accrued to the Make Whole Optional Prepayment Date), in each case, discounted to the Make Whole Optional Prepayment Date on a semi-annual compounded basis (assuming a year of 360 days consisting of 12 months of 30 days each) at the U.S. Treasury Rate plus 0.50 per cent., all as determined by the Determination Agent;

**Material Adverse Effect** means a material adverse effect on:

- (a) the financial condition, assets or business of any Guarantor or any of their Material Subsidiaries; or
- (b) the Issuer's ability to perform its obligations under the Notes; or
- (c) any Guarantor's ability to perform its obligations under the relevant Guarantee; or
- (d) the validity, legality or enforceability of the Notes or the Guarantees;

**Material Subsidiary** means, (i) GTLKE, or (ii) at any time, any Subsidiary of STLC which, at such time, has total assets or gross revenues (or the equivalent thereof) equal to or exceeding 5 per cent of the consolidated total assets or Net Interest Income (or the equivalent thereof), as the case may be, of the Group as calculated by reference to the then financial statements of such Subsidiary and the then latest IFRS consolidated financial statements of the Group, provided however that an Officer's Certificate that a Subsidiary of STLC is or is not a Material Subsidiary shall, in the absence of manifest error, be conclusive and binding on all parties;

**Moody's** means Moody's Investors Service Limited or any successor to its ratings business;

**Net Interest Income** means the sum of ((i) finance lease interest income, (ii) other interest income, (iii) income from operating leases) minus interest expense, as determined by reference to STLC's most recent annual consolidated balance sheet delivered in accordance with Condition 4.10 or, prior to the first delivery, to the Original Financial Statements;

**Officer's Certificate** means, a certificate executed on behalf of such person by an Authorised Signatory of the Issuer or the relevant Guarantor, as the case may be;

**Original Financial Statements** means the audited IFRS consolidated financial statements of the Group for the year ended 31 December 2018;

**Permitted Liens** means:

- (a) any Lien over or affecting any asset acquired by a member of the Group after the date hereof and subject to which such asset is acquired, if:
  - (i) such Lien was not created in contemplation of the acquisition of such asset by a member of the Group;
  - (ii) the amount thereby secured has not been increased in contemplation of, or since the date of, the acquisition of such asset by a member of the Group; and
  - (iii) such Lien is removed or discharged within three calendar months of the date of acquisition of such asset;
- (b) any Lien over or affecting any asset of any company which becomes a member of the Group after the date hereof, where such Lien is created prior to the date on which such company becomes a member of the Group, if:
  - (i) such Lien was not created in contemplation of the acquisition of such company;
  - (ii) the amount thereby secured has not been increased in contemplation of, or since the date of, the acquisition of such company; and
  - (iii) such Lien is removed or discharged within three calendar months of such company becoming a member of the Group;
- (c) any Lien arising by operation of law and in the normal course of business;
- (d) any Lien granted by any Subsidiary of STLC in favour of STLC;
- (e) any Liens existing on the Issue Date and any extension, renewal or substitution for any Lien existing on the Issue Date provided, however, that such extension, renewal or replacement shall be no more restrictive in any material respect than the original Lien; with respect to Liens incurred pursuant to this paragraph (e) the principal amount secured has not increased (other than any increase representing costs, fees, expenses or commission associated with such extension, renewal or substitution) and the Liens have not been extended to any additional property or assets (other than proceeds of the property or assets in question); and

any Lien over any asset of any member of the Group provided that, at all times, the aggregate book value of the assets of the Group that are not subject to any Lien is equal to or greater than 110 per cent of the aggregate amount of all Indebtedness of the Group which is not secured by Liens over assets of any member of the Group (in each case calculated in accordance with IFRS), except, in any case, where the creation or existence of such Lien could reasonably be expected to result in a Material Adverse Effect;

**Person** means any individual, corporation, firm, partnership, joint venture, association, trust, unincorporated organisation or government or judicial entity or any Agency or political subdivision thereof, in each case, whether or not having a separate legal personality;

**Potential Event of Default** means any condition, event or act which, with the lapse of time, the expiry of any grace period and/or the issue, making or giving of any notice, certification, declaration, demand, determination and/or request and/or the taking of any similar action and/or the fulfilment of any similar condition, would constitute an Event of Default;



**Preferred Stock**, as applied to the Capital Stock of any Person, means Capital Stock of any class or classes (however designated) which is preferred as to the payment of dividends or distributions, or as to the distribution of assets upon any voluntary or involuntary liquidation or dissolution of such Person, over shares of Capital Stock of any other class of such Person;

**Qualified Securitisation Transaction** means any transaction or series of transactions that may be entered into by the Issuer, any Guarantor or any of their respective Subsidiaries pursuant to which the Issuer, any Guarantor or any of their respective Subsidiaries may sell, convey or otherwise transfer to: (i) a Securitisation Entity (in the case of a transfer by the Issuer, any Guarantor or any of their respective Subsidiaries); and (ii) any other Person (in the case of a transfer by a Securitisation Entity), or may grant a security interest in any accounts receivable or equipment (whether now existing or arising or acquired in the future) of the Issuer, any Guarantor or any of their respective Subsidiaries, and any assets related thereto including, without limitation, all collateral securing such accounts receivable and equipment, all contracts and contract rights and all guarantees or other obligations in respect of such accounts receivable and equipment, proceeds of such accounts receivable and equipment and other assets (including contract rights) which are customarily transferred or in respect of which security interests are customarily granted in connection with asset securitisation transactions involving accounts receivable and equipment;

**Rate of Interest** means interest in U.S. Dollars on the outstanding principal amount of the Notes at the rate of 4.65 per cent per annum;

**Rating Agency** means any of Fitch, Moody's or Standard & Poor's or if any of Fitch, Moody's or Standard & Poor's cease to publish ratings of securities, any other internationally recognised statistical rating organisation;

**Reference Treasury Dealer** means each of the three nationally recognised firms selected by the Determination Agent that are primary U.S. Government securities dealers;

**Reference Treasury Dealer Quotations** means with respect to each Reference Treasury Dealer and any Make Whole Optional Prepayment Date, the average, as determined by the Determination Agent, of the bid and asked prices for the Comparable Treasury Issue, expressed in each case as a percentage of its principal amount, quoted in writing to the Determination Agent by such Reference Treasury Dealer at 5:00 p.m., New York City time on the third business day (in New York City) immediately preceding such Make Whole Optional Prepayment Date;

**Relevant Jurisdiction** means:

- (a) in the case of payment by the Issuer or GTLKE, Ireland or any political subdivision or any authority thereof or therein having power to tax;
- (b) in the case of payments by STLC, the Russian Federation or any political subdivision or any authority thereof or therein having power to tax; or
- (c) in any case except in relation to Condition 6.2, any other jurisdiction or any political subdivision or any authority thereof or therein having power to tax in which the Issuer or any Guarantor becomes organised or resident for tax purposes or through which payments are made by it of principal or interest on the Notes or under any Guarantee;

**Securities Act** means the U.S. Securities Act of 1933, as amended;

**Securitisation Entity** means a Wholly Owned Subsidiary (or another Person to which the Issuer, any Guarantor or any of their respective Subsidiaries transfers accounts receivable or other assets) which engages in no activities other than in connection with the financing of accounts receivable or such other assets and which is designated by the Board of Directors of any Guarantor or the Issuer as a Securitisation Entity: (a) no portion of the Indebtedness or any other obligations (contingent or otherwise) of which: (i) is guaranteed by the Issuer, any Guarantor or any of their respective Subsidiaries (excluding guarantees of obligations (other than the principal of, and interest on, Indebtedness) pursuant to Standard Securitisation Undertakings); (ii) is recourse to or obligates the Issuer, any Guarantor or any of their respective Subsidiaries in any way other than pursuant to Standard Securitisation Undertakings; or (iii) subjects any property or asset of the Issuer, any Guarantor or any of their respective Subsidiaries, directly or indirectly, contingently or otherwise, to the satisfaction thereof, other than pursuant to Standard Securitisation Undertakings; (b) with which none of the Issuer, the Guarantors or any of their respective Subsidiaries has any material contract, agreement, arrangement or understanding other than on terms no less favourable to the Issuer, the Guarantors or any of such Subsidiaries than those that might be obtained at the time from Persons that are not Affiliates, other than fees payable in the ordinary course of business in connection with servicing receivables of such entity; and (c) to which none of the Issuer, the Guarantors or any of their respective Subsidiaries has any obligations to maintain or preserve such entity's financial condition or cause such entity to achieve certain levels of operating results;

**Standard & Poor's** means Standard & Poor's Credit Market Services France SAS, or any successor to its ratings business;

**Standard Securitisation Undertaking** means representations, warranties, covenants and indemnities entered into by the Issuer, any Guarantor or any of their respective Subsidiaries which are reasonably customary in securitisations of leases;

**Stock Exchange** means the Irish Stock Exchange plc trading as Euronext Dublin;

**Subsidiary** of any Person means (a) any corporation more than 50 per cent of the outstanding voting power of the Capital Stock of which is owned or controlled, directly or indirectly, by such Person or by one or more other Subsidiaries of such Person, or by such Person and one or more other Subsidiaries thereof, (b) any limited partnership of which such Person or any Subsidiary of such Person is a general partner, (c) any other Person in which such Person, or one or more other Subsidiaries of such Person, or such Person and one or more other Subsidiaries, directly or indirectly, has more than 50 per cent of the outstanding partnership or similar interests or has the power, by contract or otherwise, to direct or cause the direction of the policies, management and affairs thereof or (d) any other Person whose financial statements are required by Accounting Standards to be consolidated into the consolidated financial statements of such Person (except that the Issuer shall not be considered to be a Subsidiary of any Guarantor merely by reason of its financial statements being required by Accounting Standards to be consolidated into the consolidated financial statements of such Guarantor). Unless otherwise specified, **Subsidiary** refers to a Subsidiary of STLC;

**Taxes** means any taxes, duties, assessments or government charges of whatever nature (including interest or penalties thereon) which are now or at any time hereafter imposed, assessed, charged, levied, collected, demanded, withheld or claimed by a Relevant Jurisdiction or any tax authority thereof or therein and the term Taxation shall be construed accordingly;

**Total Assets** means the book value of the consolidated total assets of the Group as determined by reference to the Group's most recent annual consolidated balance sheet delivered in accordance with Condition 4.10;

**Total Equity** means the book value of the consolidated total equity of the Group as determined by reference to STLC's most recent annual consolidated balance sheet delivered in accordance with Condition 4.10;

**United States Treasury Security** means a security that is a direct obligation of the United States Treasury, issued other than on a discount rate basis;

**U.S. Dollar Equivalent** means with respect to any amount denominated in a currency other than U.S. Dollars, at any time for the determination thereof, the amount of U.S. Dollars obtained by converting such other currency involved into U.S. Dollars at the spot rate for the purchase of U.S. Dollars with such other currency as most recently published under **Currency Rates** in the section of the Financial Times entitled "Currencies, Bonds & Interest Rates"; and

**U.S. Treasury Rate** means either (i) the rate per annum equal to the yield, under the heading that represents the average for the week immediately preceding the third business day (in New York City) prior to the Make Whole Optional Prepayment Date, appearing in the most recently published "H.15(519)" under the caption "Treasury Constant Maturities" for the maturity corresponding to the Comparable Treasury Issue (if no maturity is within three months before or after the Maturity Date, yields for the two published maturities most closely corresponding to the Comparable Treasury Issue shall be determined by the Determination Agent and the U.S. Treasury Rate shall be interpolated or extrapolated from such yields on a straight line basis, rounding to the nearest month) or (ii) if such release (or any successor release) is not published during the week preceding the third business day (in New York City) prior to the relevant date or does not contain such yields, the rate per annum equal to the semi-annual equivalent yield to maturity of the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for the Make Whole Optional Prepayment Date, in each case calculated by the Determination Agent on the third business day (in New York City) immediately preceding the Make Whole Optional Prepayment Date; and

**Wholly Owned Subsidiary** means a Subsidiary all the Capital Stock of which (other than directors' qualifying shares or shares of Subsidiaries required to be owned by third parties under applicable law) is owned by any Guarantor or the Issuer or one or more other Wholly Owned Subsidiaries.

## SUMMARY OF THE PROVISIONS RELATING TO THE NOTES IN GLOBAL FORM

### **The Global Certificate**

The Notes will be evidenced on issue by the Global Certificate deposited with, and registered in the name of a nominee for, a common depository for Euroclear and Clearstream, Luxembourg.

Beneficial interests in the Global Certificate may be held only through Euroclear or Clearstream, Luxembourg. See “*Euroclear and Clearstream, Luxembourg*” below. By acquisition of a beneficial interest in the Global Certificate, the purchaser thereof will be deemed to represent, among other things, that it is purchasing the Certificates in an “offshore transaction” as such term is defined in Regulation S. See “*Transfer Restrictions*”.

Beneficial interests in the Global Certificate will be subject to certain restrictions on transfer set forth therein and in the Paying Agency Agreement and the Notes will bear the legends set forth thereon regarding such restrictions set forth under “*Transfer Restrictions*”.

Except in the limited circumstances described below, owners of beneficial interests in Global Certificates will not be entitled to receive physical delivery of certificated Notes in definitive form (the **Definitive Certificates**). The Notes are not issuable in bearer form.

### **Amendments to Conditions**

The Global Certificate contains provisions that apply to the Notes that they represent, some of which modify the effect of the Terms and Conditions of the Notes. The following is a summary of those provisions:

#### ***Payments***

Payments of principal and interest in respect of Notes evidenced by the Global Certificate will be made to the person who appears at the relevant time on the register of Noteholders against presentation and (if no further payment falls to be made on it) surrender thereof to or to the order of the Principal Paying Agent, (or to or to the order of such other Paying Agent as shall have been notified to the relevant Noteholders for such purpose). A record of each payment so made will be endorsed in the appropriate schedule to the Global Certificate, which endorsement will be prima facie evidence that such payment has been made in respect of the relevant Notes.

#### ***Notices***

So long as any Notes are evidenced by the Global Certificate and the Global Certificate is held by or on behalf of a clearing system, notices to Noteholders may be given by delivery of the relevant notice to that clearing system for communication by it to entitled account holders in substitution for delivery thereof as required by the Terms and Conditions of such Notes. The Issuer shall also ensure that all notices are duly published (if such publication is required) in a manner which complies with the rules and regulations of any stock exchange or other relevant authority on which the Notes are for the time being listed and/or admitted to trading. Any such notice shall be deemed to have been given on the date on which such notice is delivered to Euroclear and/or Clearstream, Luxembourg (as the case may be).

#### ***Record Date***

So long as the Global Certificate is held by or on behalf of a common depository for Euroclear, Clearstream, Luxembourg or an Alternative Clearing System, **Record Date** shall mean the Clearing

System Business Day before the relevant due date for payment, where **Clearing System Business Day** means a day when Euroclear and Clearstream, Luxembourg is open for business.

### ***Meetings***

The holder of the Global Certificate and any proxy appointed by it will be treated as being one person for the purposes of any quorum requirements of, or the right to demand a poll at, a meeting of Noteholders and in any such meeting as having one vote in respect of each USD 1,000 in principal amount of the Notes represented by the Global Certificate.

### ***Trustee's Powers***

In considering the interests of Noteholders while the Global Certificate is held on behalf of a clearing system, the Trustee, to the extent it considers it appropriate to do so in the circumstances, may have regard to any information provided to it by such clearing system or its operator as to the identity (either individually or by category) of its accountholders with entitlements to the Global Certificate and may consider such interests as if such accountholders were the holders of the Global Certificate.

### **Exchange for Definitive Certificates**

#### ***Exchange***

Each Global Certificate will be exchangeable, free of charge to the holder, in whole but not in part, for Notes in definitive, registered form if: a Global Certificate is held by or on behalf of Euroclear or Clearstream, Luxembourg, and Euroclear or Clearstream, Luxembourg, as the case may be, is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so, by the holder giving notice to the Registrar or any Transfer Agent.

The Registrar will not register the transfer of, or exchange of interests in, the Global Certificate for Definitive Certificates for a period of 15 calendar days ending on the date for any payment of principal or interest or on the date of optional redemption in respect of the Notes.

#### ***Delivery***

In such circumstances, the Global Certificate shall be exchanged in full for Definitive Certificates and the Issuer will, at the cost of the Issuer (but against such indemnity as the Registrar or any relevant Transfer Agent may require in respect of any tax or other duty of whatever nature which may be levied or imposed in connection with such exchange), cause sufficient Definitive Certificates to be executed and delivered to the Registrar for completion, authentication and dispatch to the relevant Noteholders. A person having an interest in the Global Certificate must provide the Registrar with a written order containing instructions and such other information as the Issuer and the Registrar may require to complete, execute and deliver such Notes.

### **Legends**

The holder of a Definitive Certificate may transfer the Notes evidenced thereby in whole or in part in the applicable minimum denomination by surrendering it at the specified office of the Registrar or any Transfer Agent, together with the completed form of transfer thereon.

## **Euroclear and Clearstream, Luxembourg**

The Global Certificate representing the Notes will have an ISIN and Common Code number and will be registered in the name of a nominee for, and deposited with a common depository on behalf of, Euroclear and Clearstream, Luxembourg.

Euroclear and Clearstream, Luxembourg each hold securities for their customers and facilitate the clearance and settlement of securities transactions through electronic book-entry transfer between their respective accountholders. Indirect access to Euroclear and Clearstream, Luxembourg is available to other institutions which clear through or maintain a custodial relationship with an accountholder of either system. Euroclear and Clearstream, Luxembourg provide various services including safekeeping, administration, clearance and settlement of internationally-traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg also deal with domestic securities markets in several countries through established depository and custodial relationships. Euroclear and Clearstream, Luxembourg have established an electronic bridge between their two systems across which their respective customers may settle trades with each other. Their customers are worldwide financial institutions including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Investors may hold their interests in such Global Certificates directly through Euroclear or Clearstream, Luxembourg if they are accountholders (**Direct Participants**) or indirectly (**Indirect Participants** and together with Direct Participants, **Participants**) through organisations which are accountholders therein.

## **Relationship of Participants with Clearing Systems**

Each of the persons shown in the records of Euroclear or Clearstream, Luxembourg as the holder of a note evidenced by the Global Certificate must look solely to Euroclear or Clearstream, Luxembourg (as the case may be) for his share of each payment made by the Issuer to the holder of such Global Certificate and in relation to all other rights arising under the Global Certificate, subject to and in accordance with the respective rules and procedures of Euroclear or Clearstream, Luxembourg (as the case may be). The Issuer expects that, upon receipt of any payment in respect of Notes evidenced by the Global Certificate, the common depository by whom such note is held, or nominee in whose name it is registered, will immediately credit the relevant participants' or accountholders' accounts in the relevant clearing system with payments in amounts proportionate to their respective beneficial interests in the principal amount of the Global Certificate as shown on the records of the relevant clearing system or its nominee. The Issuer also expects that payments by Direct Participants in any clearing system to owners of beneficial interests in the Global Certificate held through such Direct Participants in any clearing system will be governed by standing instructions and customary practices. Save as aforesaid, such persons shall have no claim directly against the Issuer in respect of payments due on the Notes for so long as the Notes are evidenced by the Global Certificate and the obligations of the Issuer will be discharged by payment to the registered holder, as the case may be, of the Global Certificate in respect of each amount so paid. None of the Issuer, the Guarantors, the Trustee or any Agent will have any responsibility or liability for any aspect of the records relating to or payments made on account of ownership interests in the Global Certificate or for maintaining, supervising or reviewing any records relating to such ownership interests.

## **Settlement and Transfer of Notes**

Subject to the rules and procedures of each applicable clearing system, purchases of Notes held within a clearing system must be made by or through Direct Participants, which will receive a credit for such Notes on the clearing system's records. The ownership interest of each actual purchaser of each such note (the **Beneficial Owner**) will in turn be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from any clearing system of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the

transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which such Beneficial Owner entered into the transaction.

Transfers of ownership interests in Notes held within the clearing system will be affected by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in such Notes, unless and until interests in the Global Certificate held within a clearing system are exchanged for Definitive Certificates.

No clearing system has knowledge of the actual Beneficial Owners of the Notes held within such clearing system and their records will reflect only the identity of the Direct Participants to whose accounts such Notes are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers. Conveyance of notices and other communications by the clearing systems to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

The laws of some jurisdictions may require that certain persons take physical delivery in definitive form of securities. Consequently, the ability to transfer interests in a Global Certificate to such persons may be limited.

#### **Trading between Euroclear and/or Clearstream, Luxembourg Participants**

Secondary market sales of book-entry interests in the Notes held through Euroclear or Clearstream, Luxembourg to purchasers of book-entry interests in the Notes held through Euroclear or Clearstream, Luxembourg will be conducted in accordance with the normal rules and operating procedures of Euroclear and Clearstream, Luxembourg and will be settled using the procedures applicable to conventional Eurobonds.

#### **Pre-issue Trades Settlement**

It is expected that delivery of Notes will be made against payment therefore on the Closing Date, which could be more than three business days following the date of pricing. Settlement procedures in different countries will vary. Purchasers of Notes may be affected by such local settlement practices, and purchasers of Notes between the relevant date of pricing and the Closing Date should consult their own advisors.

## TRANSFER RESTRICTIONS

*Because of the following restrictions, you are advised to consult legal counsel prior to making any offer, resale or other transfer of the Notes offered hereby.*

Each purchaser of Notes, by accepting delivery of this Prospectus and the Notes, will be deemed to have represented, agreed and acknowledged that:

- (a) It is, or at the time Notes are purchased will be, the beneficial owner of such Notes and (i) it is located outside the United States (within the meaning of Regulation S) and (ii) it is not an affiliate of the Issuer, the Guarantors or a person acting on behalf of such an affiliate.
- (b) It understands that the Notes have not been and will not be registered under the Securities Act and that, prior to the expiration of the “distribution compliance period” (as such term is defined in Rule 902 of Regulation S), it will not offer, sell, pledge or otherwise transfer such Notes except in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S and in accordance with any applicable securities laws of any state of the United States.



## TAXATION

*The following is a general description of certain tax laws relating to the Notes and does not purport to be a comprehensive discussion of the tax treatment of the Notes. Prospective investors in the Notes should consult their own tax advisors as to the tax consequences of the purchase, ownership and disposition of the Notes in light of their particular circumstances, including but not limited to the consequences of receipt of interest and sale or redemption of the Notes.*

### IRELAND

The following is a summary of the principal Irish withholding tax consequences for individuals and companies of ownership of the Notes based on the laws and practice of the Irish Revenue Commissioners in force in Ireland as at the date of this Prospectus and may be subject to change. It deals with Noteholders who beneficially own their Notes as an investment. Particular rules not discussed below may apply to certain classes of taxpayers holding Notes, such as dealers in securities, trusts, etc. The summary does not constitute tax or legal advice and the comments below are of a general nature only. Prospective investors in the Notes should consult their professional advisers on the tax implications of the purchase, holding, redemption or sale of the Notes and the receipt of interest thereon under the laws of their country of residence, citizenship or domicile.

In this section **Relevant Territory** means a member state of the European Union (other than Ireland) or a country with which Ireland has signed a double tax treaty.

#### Taxation of Noteholders

##### *Withholding Tax on payments of Interest by the Issuer*

In general, tax at the standard rate of income tax (currently 20 per cent) is required to be withheld from payments of Irish source interest which should include interest payable on the Notes. The Issuer will not be obliged to make a withholding or deduction for or on account of Irish income tax from a payment of interest on a Note where:

- (a) the Notes are Quoted Eurobonds, i.e. securities which are issued by a company (such as the Issuer), which are listed on a recognised stock exchange (such as Euronext Dublin) and which carry a right to interest; and
- (b) the person by or through whom the payment is made is not in Ireland, or if such person is in Ireland, either:
  - (i) the Notes are held in a clearing system recognised by the Irish Revenue Commissioners; (DTC, Euroclear and Clearstream, Luxembourg are, amongst others, so recognised); or
  - (ii) the person who is the beneficial owner of the Notes is not resident in Ireland and has made a declaration to a relevant person (such as a paying agent located in Ireland) in the prescribed form.

Thus, so long as the Notes continue to be quoted on Euronext Dublin or another recognised stock exchange and are held in a clearing system recognised by the Irish Revenue Commissioners (DTC, Euroclear and Clearstream, Luxembourg are, amongst others, so recognised), interest on the Notes can be paid by any paying agent acting on behalf of the Issuer free of any withholding or deduction for or on account of Irish income tax. If the Notes continue to be quoted but cease to be held in a recognised clearing system, interest on the Notes may be paid without any withholding or deduction

for or on account of Irish income tax provided such payment is made through a Paying Agent outside Ireland.

If, for any reason, the quoted Eurobond exemption referred to above ceases to apply, interest payments may still be made free of withholding tax provided that: the interest is paid in the ordinary course of the Issuer's business and the Noteholder is:

- (i) a company which (1) by virtue of the law of a Relevant Territory, is resident in the Relevant Territory for the purposes of tax, and that Relevant Territory imposes a tax that generally applies to interest receivable in that Relevant Territory by companies from sources outside that Relevant Territory, and (2) does not receive the interest payment in connection with a trade or business which is carried on in Ireland by it through a branch or agency; or
- (ii) a company where (1) the interest payable to it is exempted from the charge to income tax under a double taxation treaty in force between Ireland and another territory, or would be exempted from the charge to income tax if a double taxation treaty made between Ireland and another territory on or before the date of payment, but not yet in force, had the force of law when the interest was paid, and (2) it does not receive the interest payment in connection with a trade or business which is carried on in Ireland by it through a branch or agency.

The Issuer must be satisfied that the respective terms of the exemptions are satisfied. The test of residence in each case is determined by reference to the law of the Relevant Territory in which the Noteholder claims to be resident.

For other holders of Notes, interest may be paid free of withholding tax if the Noteholder is resident in a double tax treaty country and under the provisions of the relevant treaty with Ireland such Noteholder is exempt from Irish tax on the interest and clearance in the prescribed form has been received by the Issuer before the interest is paid.

### **Withholding Tax on payments by GTLKE under the Guarantee**

The case law on the nature of guarantee payments is uncertain, but in summary and on the basis that a payment under a guarantee takes its nature from the payment which it replaces, a payment in respect of the Notes by GTLKE under the Guarantee should be treated as a payment of interest. GTLKE should not, however, be obliged to make a withholding or deduction for or on account of Irish income tax from a payment under the Guarantee where the Quoted Eurobond exemption outlined above applies in respect of the Notes.

### ***Encashment Tax***

Irish tax will be required to be withheld at the standard rate of income tax (currently 20 per cent) from interest on any Note, where such interest is collected or realised by a bank or encashment agent in Ireland on behalf of any Noteholder. There is an exemption from encashment tax where the beneficial owner of the interest is not resident in Ireland and has made a declaration to this effect in the prescribed form to the encashment agent or bank.

### ***Income Tax, PRSI and Universal Social Charge***

Notwithstanding that a Noteholder may receive interest on the Notes free of withholding tax, the Noteholder may still be liable to pay Irish income tax with respect to such interest. Noteholders resident or ordinarily resident in Ireland who are individuals may be liable to pay Irish income tax,

pay related social insurance (**PRSI**) contributions and the universal social charge in respect of interest they receive on the Notes.

Interest paid on the Notes may have an Irish source and therefore may be within the charge to Irish income tax, notwithstanding that the Noteholder is not resident in Ireland. In the case of Noteholders who are non-resident individuals such Noteholders may also be liable to pay the universal social charge in respect of interest they receive on the Notes.

Ireland operates a self-assessment system in respect of tax and any person, including a person who is neither resident nor ordinarily resident in Ireland, with Irish source income comes within its scope.

There are a number of exemptions from Irish income tax available to certain non-residents including:

- (i) Interest payments made by the Issuer in the ordinary course of its trade or business to a company are exempt from income tax provided the recipient company is not resident in Ireland and is a company which is either resident for tax purposes in a Relevant Territory which imposes a tax that generally applies to interest receivable in that Relevant Territory by companies from sources outside that Relevant Territory and which tax corresponds to income tax or corporation tax in Ireland or, in respect of the interest is exempted from the charge to Irish income tax under the terms of a double tax agreement which is either in force or which is not yet in force but which will come into force once all ratification procedures have been completed.
- (ii) Interest paid by the Issuer free of withholding tax under the quoted Eurobond exemption is exempt from income tax where the recipient is a person not resident in Ireland and resident in a Relevant Territory or is a company not resident in Ireland which is under the control, whether directly or indirectly, of person(s) who by virtue of the law of a Relevant Territory are resident for the purpose of tax in a Relevant Territory and are not under the control of person(s) who are not so resident or is a company not resident in Ireland where the principal class of shares of the company or its 75 per cent parent is substantially and regularly traded on a recognised stock exchange. For the purposes of these exemptions and where not specified otherwise, residence is determined under the terms of the relevant double taxation agreement or in any other case, the law of the country in which the recipient claims to be resident. Interest falling within the above exemptions is also exempt from the universal social charge.

Notwithstanding these exemptions from income tax, a corporate recipient that carries on a trade in Ireland through a branch or agency in respect of which the Notes are held or attributed, may have a liability to Irish corporation tax on the interest.

Relief from Irish income tax may also be available under the specific provisions of a double tax treaty between Ireland and the country of residence of the recipient.

Interest on the Notes which does not fall within the above exemptions is within the charge to income tax and, in the case of Noteholders who are individuals, is subject to the universal social charge. In the past the Irish Revenue Commissioners have not pursued liability to income tax in respect of persons who are not regarded as being resident in Ireland except where such persons have a taxable presence of some sort in Ireland or seek to claim any relief or repayment in respect of Irish tax. However, there can be no assurance that the Irish Revenue Commissioners will apply this treatment in the case of any Noteholder.

## **Stamp Duty**

### *Issuance of Notes*

No stamp duty will arise on the issue of the Notes.

### *Transfer of the Notes*

The transfer of Notes by written document will be liable to stamp duty at the rate of 1 per cent. of the consideration passing or market value, if higher. Transfers of the Notes will however be exempt from stamp duty provided the Notes are issued at a discount of not less than 10 per cent., do not carry rights akin to share rights, are not convertible into shares and do not carry a right to a payment linked wholly or partly, and directly or indirectly, to an equity index or equity indices.

## **Irish Value-Added Tax (VAT)**

There should be no Irish VAT payable in respect of payments in consideration for the issue of the Notes or for the transfer of a Note.

## **THE RUSSIAN FEDERATION**

### **Recent developments of the Russian taxation system**

The Russian Government is continuously reforming the tax system by redrafting parts of the Tax Code of the Russian Federation (the **Russian Tax Code**). Since 1 January 2009, the corporate profits tax rate has been 20 per cent. For individuals who are tax residents in the Russian Federation the current personal income tax rate applicable to most types of income is 13 per cent. As of 1 January 2019, the general rate of VAT has been increased to 20 per cent.

Russian tax laws, regulations and court practice are subject to frequent change, varying interpretations and inconsistent and selective enforcement. In accordance with the Constitution of the Russian Federation, laws that introduce new taxes or worsen a taxpayer's position cannot be applied retrospectively. Nonetheless, there have been several instances when such laws have been introduced and applied retrospectively.

Legislatures of the Russian Federation's regions are currently empowered to provide wide-ranging incentives such as reduced income tax rates for business units operating within the respective region's territory. However, the federal government of the Russian Federation has recently initiated legislative amendments aimed at reducing region-level authority stipulating such preferential taxation. Thus, a reduction of the corporate profits tax rate at the regional level will be available solely for targeted types of taxpayers, defined at the federal level. The reduced regional profits tax rates that are currently applicable will remain in effect until 1 January 2023 (at the latest). These conditions complicate tax planning and related business decisions. The related uncertainties could also expose the Group to significant fines and penalties and potentially severe enforcement measures despite the Group's best efforts at compliance, and could result in a greater than expected tax burden. This, in turn, could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

Generally, taxpayers are subject to a tax audit for a period of three calendar years immediately preceding the year in which the decision to carry out a tax audit was taken. In certain circumstances, repeated tax audits (i.e. audits with respect to the same taxes and the same periods) are possible. Generally, the statute of limitations for a tax offence is three years after the date on which the tax offence was committed or from the date following the end of the tax period during which the tax offence was committed (depending on the nature of the tax offence). Nevertheless, according to the

Russian Tax Code and based on current judicial interpretation, there may be cases where the statute of limitations for tax offences may extend beyond three years.

In October 2006, the Plenum of the Supreme Arbitrazh Court of the Russian Federation issued a resolution concerning judicial practice with respect to unjustified tax benefits. In this context, a tax benefit means a reduction in the amount of a tax liability resulting, in particular, from a reduction in the tax base, the receipt of a tax deduction or tax concession or the application of a lower tax rate or the receipt of a right to a refund (offset) or reimbursement of tax. The resolution provides that where the true economic intent of business operations is inconsistent with the manner in which it has been taken into account for tax purposes, a tax benefit may be deemed to be unjustified. The same conclusion may apply when an operation lacks a reasonable economic or business rationale. As a result, a tax benefit cannot be regarded as a business objective in its own right. On the other hand, the fact that the same economic result might have been obtained with a lesser tax benefit accruing to the taxpayer does not constitute grounds for declaring a tax benefit to be unjustified. Moreover, there are no rules and little case law applicable to distinguishing between lawful tax optimisation and tax avoidance or evasion. The tax authorities have actively sought to apply the resolution of the Supreme Arbitrazh Court when challenging tax positions taken by taxpayers in court, and are expected to extend its application in the future. Although the intention of this resolution is to combat tax abuses, in practice there can be no assurance that the tax authorities will not seek to apply this concept in a broader sense than may have been intended by the Supreme Arbitrazh Court.

The above approach was further developed by amendments to the Russian Tax Code, which became effective on 19 August 2017. The amendments introduced the new Article 54.1 to the Russian Tax Code, which limits activities aimed at reducing the amount of taxes payable. Under these provisions, a taxpayer may not reduce the tax base and/or the amount of tax payable by misrepresenting information regarding economic events or the objects of taxation which are required to be disclosed in a taxpayer's tax and/or accounting records or tax statements. A taxpayer has the right to reduce the tax base and/or the amount of taxes payable, provided that the following conditions are met: (i) it is not the principal objective of a transaction to cause an amount of tax not to be paid or to be refunded; or (ii) the obligation arising from a transaction was performed by a person who is a party to the contract concluded with the taxpayer and/or a person to whom such obligation was transferred by contract or law. The following circumstances do not, on their own, constitute grounds for a tax benefit to qualify as unjustified: (i) if primary documents were signed by unidentified or unauthorised persons; (ii) if a taxpayer's counterparty violated the tax law; or (iii) if the same economic result could have been obtained through other transactions.

Recent developments show that the Russian tax authorities are scrutinising various tax planning and mitigation techniques used by taxpayers, including international tax planning. In particular, the Russian Federation introduced "controlled foreign company" (CFC) rules, the concept of "tax residency for an organisation" and the "beneficial ownership" concept, and is increasingly engaged in the international exchange of tax and financial information (including through country-by-country reporting standards and common reporting standards developed and approved by the Organisation for Economic Co-operation and Development (the OECD)). In 2017, the Russian Federation signed the Multilateral Convention to Implement Tax Treaty Related Measures to Prevent BEPS (MLI), implementing a series of tax treaty measures to update international tax rules and lessen the opportunity for tax avoidance, and ratified it in 2019. The MLI came into force in Russia on 1 October 2019 and shall be applied from 1 January 2021 in respect of taxes with sources within the Russian Federation.

## Taxation of the Notes

### *General*

The following is an overview of certain Russian tax considerations relevant to the purchase, ownership and disposal of the Notes as well as the taxation of payments under the Guarantee. The overview is based on the laws of the Russian Federation as at the date of this Prospectus, which are subject to potential change (possibly with retroactive effect). The overview does not seek to address the applicability of, or procedures in relation to, taxes levied by regions, municipalities or other non-federal level authorities of the Russian Federation, nor does it seek to address the availability of double tax treaty relief in respect of income payable on the Notes, or practical difficulties connected with claiming such double tax treaty relief.

Prospective investors should consult their own tax advisers regarding the tax consequences of investing in the Notes that may arise in their own particular circumstances. No representation with respect to the Russian tax consequences of investing, owning or disposing of the Notes pertinent to any particular Noteholder is made hereby.

Many aspects of the Russian tax laws are subject to significant uncertainty and lack of interpretive guidance, resulting in inconsistent interpretations and application thereof. Further, provisions of the Russian Tax Code applicable to financial instruments and the interpretation and application of those provisions by the Russian tax authorities may be subject to more rapid and unpredictable changes (possibly with retroactive effect) and inconsistent interpretation than in jurisdictions with more developed capital markets or more developed taxation systems. In particular, the interpretation and application of such provisions will in practice rest substantially with local tax inspectorates and relevant interpretations may constantly change. In practice, interpretation by different tax inspectorates may be inconsistent or contradictory, and may result in the imposition of conditions, requirements or restrictions that are not explicitly stated in the Russian Tax Code. Similarly, in the absence of binding precedents, court rulings on tax or other related matters taken by different Russian courts relating to the same or similar facts and circumstances may also be inconsistent or contradictory.

For the purposes of this overview, the term **Resident Noteholder** means:

- (i) a Noteholder which is a legal entity or an organisation and is:
  - a Russian legal entity;
  - a foreign legal entity or organisation recognised as a Russian tax resident based on Russian domestic law (if the Russian Federation is recognised as the place of management of such legal entity or organisation as determined in the Russian Tax Code unless otherwise envisaged by an applicable double tax treaty);
  - a foreign legal entity or organisation which holds and/or disposes of the Notes through its permanent establishment in the Russian Federation (a **Legal Entity Resident Noteholder**), and
- (ii) an Individual Noteholder and is actually present in Russia in total 183 calendar days or more in any period comprising 12 consecutive months (an **Individual Resident Noteholder**). Presence in the Russian Federation is not considered interrupted if an individual departs for short periods (less than six months) from the Russian Federation for medical treatment or education purposes as well as for the employment or other duties related to the performance of works (services) on offshore hydrocarbon fields. The interpretation of this definition by the Ministry of Finance of the Russian Federation states that, for tax withholding purposes, an

individual's tax residence status should be determined on the date of the income payment (based on the number of days spent in the Russian Federation in the 12-month period preceding the date of the payment). An individual's final tax liability in the Russian Federation for any reporting calendar year should be determined based on the number of days spent in the Russian Federation in such calendar year.

For the purposes of this overview, the term **Non-Resident Noteholder** means any Noteholder (including any individual (the **Individual Non-Resident Noteholder**) and any legal entity or an organisation (the **Legal Entity Non-Resident Noteholder**)) that does not qualify as a Resident Noteholder.

The Russian tax treatment of payments under the Guarantee made by STLC to the Trustee under the Trust Deed may affect the holders of the Notes. See "*Taxation of Payments under the Guarantee made by STLC*" below.

Noteholders should seek professional advice on their tax status in Russia.

### ***Legal Entity Non-Resident Noteholders***

#### *Acquisition of the Notes*

The acquisition of the Notes by a Legal Entity Non-Resident Noteholder (whether upon issuance or in the secondary market) should not trigger any Russian tax implications for the Legal Entity Non-Resident Noteholder.

#### *Disposal of the Notes*

A Legal Entity Non-Resident Noteholder generally should not be subject to any Russian taxes in respect of gain or other income realised on sale, redemption or a disposal of the Notes, provided that no portion of proceeds from such sale, redemption or other disposal of the Notes is received from either a source within the Russian Federation or from a Russian tax resident which is a legal entity and no portion thereof is attributable to accrued interest. Any portion of such proceeds received from either a source within the Russian Federation or from a Russian tax resident which is a legal entity attributable to accrued interest may be subject to Russian withholding tax at a rate of 20 per cent even if the sale, redemption or disposal itself results in a capital loss, subject to the provisions outlined in "*Double Tax Treaty Relief*" below.

Legal Entity Non-Resident Noteholders should consult their tax advisers with respect to the tax consequences of the acquisition and disposal of the Notes and the tax consequences of the receipt of proceeds from a source within the Russian Federation in respect of a sale, redemption or other disposal of the Notes and applicability of double tax treaty relief.

### ***Individual Non-Resident Noteholders***

#### *Acquisition of the Notes*

The taxation of income of Individual Non-Resident Noteholders will depend on whether the income is characterised as received from a Russian or non-Russian source. In certain circumstances, the acquisition of the Notes by Individual Non-Resident Noteholders (either at original issuance if the Notes are not issued at par, or in the secondary market) may constitute a taxable event for Russian personal income tax purposes. In particular, if Individual Non-Resident Noteholders acquire the Notes in the Russian Federation or from a Russian entity and the acquisition price of the Notes is below fair market value (calculated under a specific procedure for the determination of market prices of securities for Russian personal income tax purposes), this may constitute a taxable event pursuant to

the provisions of the Russian Tax Code relating to material benefit (deemed income) received by individuals as a result of acquiring securities. Although the Russian Tax Code does not contain any provisions as to how the source of the related material benefit should be determined, in practice the Russian tax authorities may infer that such income should be considered as Russian-source income if the Notes are purchased “in the Russian Federation”. In the absence of any additional guidance as to what should be considered as a purchase of securities in the Russian Federation, the Russian tax authorities may apply various criteria, including looking at the place of conclusion of the acquisition transaction, the location of the seller, or other similar criteria. In such a case, Individual Non-Resident Noteholders may be subject to Russian personal income tax at a rate of 30 per cent on an amount equal to the difference between the fair market value and the purchase price of the Notes.

The tax may be withheld at source of payment or, if the tax is not withheld, the Individual Non-Resident Noteholder may be required to declare its income in the Russian Federation by filing a tax return and paying the tax or based on a tax assessment received from the Russian tax authorities, depending on the circumstances. If the tax is not withheld by the tax agent, the tax agent selling the Notes would be required to report the income received by the Individual Non-Resident Noteholder upon the acquisition of the Notes to the Russian tax authorities.

#### *Disposal of the Notes*

Individual Non-Resident Noteholders generally should not be subject to any Russian taxes in respect of gain or other income realised on a redemption, sale or disposal of the Notes outside the Russian Federation, provided that the proceeds of such sale, redemption, or other disposal of the Notes are not received from either a source within the Russian Federation or from a Russian legal entity that qualifies as a tax agent for Russian personal income tax purposes (generally, a licensed broker or an asset manager that carries out operations in the Russian Federation in the interests of an Individual Non-Resident Noteholder under an asset management agreement, a brokerage service agreement, an agency agreement or a commission agreement).

If proceeds from the sale, redemption or other disposal of the Notes, including any portion of such proceeds attributable to accrued interest income under the Notes, are received either from a Russian source or from a Russian legal entity that qualifies as a tax agent for Russian personal income tax purposes, an Individual Non-Resident Noteholder will generally be subject to Russian personal income tax at a rate of 30 per cent, in respect of the gross proceeds from such sale, redemption or other disposal less any available deduction of expenses incurred by the Noteholder (which includes the purchase price of the Notes) subject to any available double tax treaty relief, as discussed below in “*Double Tax Treaty Relief*”.

Income received from a sale, redemption or disposal of securities should be treated as having been received from a Russian source if such sale, redemption or disposal occurs in the Russian Federation. In the absence of any guidance as to what should be considered as a sale or other disposal of securities “in the Russian Federation”, the Russian tax authorities may apply various criteria in order to determine the source of the sale or other disposal, including looking at the place of conclusion of the transaction, the location of the buyer, or other similar criteria. There is no assurance, therefore, that proceeds received by Individual Non-Resident Noteholders from a sale, redemption or disposal of the Notes will not become subject to tax in the Russian Federation.

Further, there is a risk that, if the documentation supporting the cost deductions is deemed insufficient by the Russian tax authorities or by the person remitting the proceeds to an Individual Non-Resident Noteholder (where such person is considered the tax agent, obliged to calculate and withhold Russian personal income tax and remit it to the Russian budget), the cost deductions may be disallowed and the tax will apply to the gross amount of the sale, redemption or disposal proceeds.



In certain circumstances, if the sale and/or disposal proceeds (including accrued interest on the Notes) are paid to an Individual Non-Resident Noteholder by a licensed broker or an asset manager that carries out operations in the Russian Federation in the interests of an Individual Non-Resident Noteholder under an asset management agreement, a brokerage service agreement, an agency agreement or a commission agreement, the applicable Russian personal income tax at the rate of 30 per cent (or such other tax rate as may be effective at the time of payment) should be withheld at source by such entity who will be considered as the tax agent. The withholding tax rate should be applied to the difference between the proceeds paid to the Individual Non-Resident Noteholder and the amount of duly documented deductions relating to the original purchase cost and related expenses incurred by the Noteholder on the purchase, holding and sale of the Notes to the extent that such deductions and expenses can be determined by the entity making the payment. The entity making the payment would be required to report to the Russian tax authorities the income received by and a deduction allowed to the Individual Non-Resident Noteholder and tax withheld upon the sale/ disposal of the Notes.

If a Russian personal income tax obligation arises as a result of the sale, redemption or other disposal of the Notes but the tax has not been withheld in the absence of a tax agent, an Individual Non-Resident Noteholder is required to file a personal income tax return in the Russian Federation to report the amount of income received to the Russian tax authorities and apply for a deduction in the amount of the acquisition cost and other expenses related to the acquisition, holding, sale or other disposal of the Notes, based on the provision of supporting documentation. The applicable personal income tax will then have to be paid by the individual on the basis of the filed personal income tax return.

If a Russian personal income tax obligation arises as a result of the sale, redemption or other disposal of the Notes but the tax agent was not able to withhold the tax and reported this fact to the Russian tax authorities, the tax is payable by the Individual Non-Resident Noteholder based on a tax assessment issued by the Russian tax authorities.

Under certain circumstances, gains received and losses incurred by an Individual Non-Resident Noteholder as a result of the sale, redemption or other disposal of the Notes and other securities of the same category (i.e., securities qualified as traded or non-traded for Russian personal income tax purposes) occurring within the same tax year may be aggregated for Russian personal income tax purposes, which would affect the total amount of personal income of an Individual Non-Resident Noteholder subject to taxation in the Russian Federation.

Since the sale, redemption or other disposal proceeds and deductible expenses for Russian tax purposes are calculated in roubles, the taxable base may be affected by fluctuations in the exchange rates between the currency in which the Notes were acquired, the currency in which the Notes were sold, and roubles, i.e. there could be a loss or no gain in the currency of the Notes but a gain in roubles which could be potentially subject to taxation.

Individual Non-Resident Noteholders should consult their tax advisers with respect to the tax consequences of the acquisition and disposal of the Notes and the tax consequences of the receipt of proceeds from a source within the Russian Federation in respect of a sale, redemption or other disposal of the Notes.

### ***Resident Noteholders***

A Resident Noteholder will generally be subject to all applicable Russian taxes and responsible for complying with any documentation requirements that may be established by law or practice in respect of gain from the sale, redemption or other disposal of the Notes and interest income received on the Notes. Resident Noteholders should consult their own tax advisors with respect to the effect that the acquisition, holding and disposal of the Notes may have on their tax position.

### *Legal Entity Resident Noteholders*

A Legal Entity Resident Noteholder should, prima facie, be subject to Russian profits tax at the rate of up to 20 per cent on interest (coupon) income on the Notes as well as on the capital gain from the sale, redemption or other disposal of the Notes. Generally, Legal Entity Resident Noteholders are required to submit Russian profits tax returns, and assess and pay tax on capital gains and interest (coupon) income.

### *Individual Resident Noteholders*

An Individual Resident Noteholder should generally be subject to personal income tax at a rate of 13 per cent on (i) deemed income resulting from the acquisition of the Notes at a price below fair market value, (ii) on interest (coupon) income on the Notes and (iii) income received from the sale, redemption or other disposal of the Notes. If such income is paid to an Individual Resident Noteholder by a tax agent, the applicable Russian personal income tax of 13 per cent should be withheld at source by such tax agent. For the purposes of taxation of interest (coupon) income and income received from a sale, redemption and/or other disposal of the Notes, a tax agent is, *inter alia*, a licensed broker or an asset manager who carries out operations in the interest of an Individual Resident Noteholder under an asset management agreement, a brokerage service agreement, an agency agreement or a commission agreement, or in certain cases a Russian organisation (e.g. the Issuer), which makes payments under the notes. If the Russian personal income tax has not been withheld (if there was no tax agent) Individual Resident Noteholders are required to submit annual personal income tax returns, assess and pay the tax. If the tax agent in Russia was not able to withhold the tax and reported this fact to the Russian tax authorities, the tax is payable by the Individual Resident Noteholder based on a tax assessment issued by the Russian tax authorities.

### **Taxation of Principal and Interest under the Notes paid by the Issuer to the Non-Resident Noteholders**

Legal Entity Non-Resident Noteholders generally should not be subject to any Russian taxes in respect of payments of principal on the Notes received from the Issuer.

Payments under the Notes may be subject to Russian withholding tax if the Issuer is treated as a Russian tax resident or if the Issuer's activities lead to creation of a permanent establishment for the Issuer in the Russian Federation. In these cases payments of interest under the Notes made by the Issuer to the Non-Resident Noteholders could be recognised by Russian tax authorities as subject to Russian withholding tax at a rate of 20 per cent (or 30 per cent in respect of Individual Non-Resident Noteholders).

However, the Russian Tax Code provides an exemption from the obligation to withhold tax from interest paid by a Russian organisation to Legal Entity Non-Resident Noteholders under the "quoted bonds" issued in accordance with the legislation of the foreign jurisdiction (this exemption is also applicable to the foreign organizations, which are either recognised as Russian tax residents, or as those organisations, which activities lead to creation of a permanent establishment in the Russian Federation).

For the purpose of the Russian Tax Code, "quoted bonds" means bonds and other debt obligations (1) which passed the listing procedure and/or (2) which were admitted to circulation on one or more foreign stock exchanges and/or (3) rights to which are recorded by a foreign depository clearing organisation, provided such foreign stock exchanges and depository clearing organisations are specified in the list of foreign financial intermediaries (the **List**). The List, which became effective on 16 July 2017, includes the Irish Stock Exchange (trading as Euronext Dublin) amongst the recognised foreign stock exchanges, Euroclear and Clearstream, Luxembourg amongst the recognised foreign depository clearing organisations.

Criteria (1) and (2) should be satisfied as the Notes will be listed on Euronext Dublin. The Notes should satisfy criterion (3) because the rights to the Notes will be held in Euroclear and Clearstream, Luxembourg, which for the purposes of the Russian Tax Code essentially should mean that the rights to the Notes are “recorded” with one of the above foreign depository-clearing organisations. According to the Russian Tax Code, in order to be treated as “quoted bonds” fulfilment of one of the above criteria is sufficient. Therefore, the Notes should be recognised as “quoted bonds” for the purposes of the Russian Tax Code.

Based on the professional advice received, the Issuer believes that it should be released from the obligation to withhold the Russian withholding tax from interest payments made to Legal Entity Non-Resident Noteholders under the Notes provided that the Notes continue to be recognised as “quoted bonds” for the purposes of the Russian Tax Code as outlined above.

If the Issuer’s activities lead to a creation of a permanent establishment for the Issuer in the Russian Federation, the payments under the Notes (including interest and principal amounts under the Notes) made by the Issuer to Individual Non-Resident Noteholders less any available cost deduction could be subject to Russian taxation at a rate of 30 per cent subject to any available double tax treaty relief (for details see “*Double Tax Treaty Relief*”). Also, if the Issuer is treated as a Russian tax resident, or if the Issuer’s activities lead to creation of a permanent establishment in the Russian Federation, the Issuer will be fully subject to all applicable Russian taxes in accordance with the Russian tax law and will be exposed to all of the risks and implications associated with the Russian tax system. Such Russian tax consequences could have a material adverse effect on the Issuer’s business, financial condition and results of operations and the Issuer’s ability to make payments under, or the trading price, of the Notes.

## **Taxation of Payments under the Guarantee made by STLC**

### ***Russian withholding tax***

#### *Non-Resident Noteholders*

Payments following the enforcement of the Guarantee to be made by the STLC to Non-Resident Noteholders to the extent relating to interest on the Notes are likely to be characterised as Russian-source income. Accordingly, such payments should be subject to withholding tax at a rate of 20 per cent in the event that a payment under the Guarantee is made to a Legal Entity Non-Resident Noteholder which is not organised under Russian law and which holds the Notes otherwise than through a permanent establishment in the Russian Federation, subject to the provisions outlined in “*Double Tax Treaty Relief*” below. In the event a payment under the Guarantee is characterised as Russian-source income and is made to an Individual Non Resident Noteholder, such payment may be subject to personal income tax at a rate of 30 per cent, subject to the provisions outlined in “*Double Tax Treaty Relief*” below.

The Issuer and STLC cannot offer any assurance that: (i) double tax treaty advance relief (or a refund of any taxes withheld) will be available to a Non-Resident Noteholder with respect to payments under the Guarantee or (ii) that such withholding tax would not be imposed upon the entire payment under the Guarantee, including with respect to the principal amount of the Notes. The imposition or the possibility of the imposition of this withholding tax could adversely affect the value of the Notes.

Under the gross-up provisions for the Notes, if payments made under the Guarantee are subject to any withholding taxes for any reason (as a result of which STLC would be obligated to reduce the payments to be made under the Guarantee by the amount of such taxes to be withheld), STLC is required to increase the payments as may be necessary so that the net amounts received in respect of such payments after such withholding or deduction will equal the respective amounts that would have been received in respect of such payments in the absence of such withholding or deduction. It is

currently unclear whether the provisions obliging STLC to gross-up payments will be enforceable in the Russian Federation.

Under the general rule provided by the Tax Code, withholding tax may not be paid out of the resources of tax agents. It is also prohibited to include tax provisions in agreements and other transactions under which tax agents that pay income assume obligations to bear expenses associated with the payment of tax on behalf of individuals.

Accordingly there is a risk that the tax gross-up for withholding tax will not take place and that the full amount of the payments made by STLC will be subject to reduction by the Russian income tax at a rate of 20 per cent (or 30 per cent in respect of Individual Non-Resident Noteholders).

Non-Resident Noteholders should consult their tax advisors with respect to the tax consequences of the receipt of payments under the Guarantee, including applicability of any available double tax treaty relief.

#### *Resident Noteholders*

A Resident Noteholder is subject to all applicable Russian taxes and responsible for complying with any documentation requirements that may be established by law or practice in respect of payments to be received by such Noteholder under the Guarantee.

Resident Noteholders should consult their tax advisers with respect to the tax consequences of the receipt of payments under the Guarantee.

#### ***Russian VAT***

Payments under the Guarantee to be made by STLC attributable to the principal amount or interest under the Notes and the additional tax gross-up amounts, should not be subject to Russian VAT. The payments under the Guarantee to be made by STLC attributable to compensation of other expenses (if any) could be subject to Russian VAT.

All payments made by STLC with respect to the Guarantee will, except in certain limited circumstances, be made free and clear of and without withholding or deduction for, or on account of, any present or future taxes unless the withholding or deduction for, or on account of, such taxes is then required by law. In the event of such a deduction or withholding, STLC, as applicable, will pay such additional amounts as may be necessary in order that the net amounts received in respect of such payments after such withholding or deduction will equal the respective amounts that would have been received in respect of such payments in the absence of such withholding or deduction. While the Prospectus provides for STLC to pay such corresponding amounts in these circumstances, it is unclear whether a tax gross-up clause such as that contained in the Prospectus is enforceable in the Russian Federation. Under the general rule provided by the Tax Code, the tax base shall be increased by the amounts associated with payments for sold goods (work and services).

Accordingly there is a risk that the tax gross-up for VAT will not take place and that the portion of the payments under the Guarantee attributable to compensation of other expenses (if any) made by STLC, which is a Russian legal entity, will be reduced by Russian VAT at a rate of 16.67 per cent.

Noteholders should consult their tax advisers with respect to the Russian VAT consequences of the receipt of payments under the Guarantee.

## ***Double Tax Treaty Relief***

### *Advance relief*

The Russian Federation has concluded double tax treaties with a number of countries. These double tax treaties may contain provisions that allow for the reduction or elimination of Russian withholding taxes with respect to income or proceeds received by Non-Resident Noteholders from a source within Russia, including income or proceeds from the sale, redemption or other disposal of the Notes. To the extent double tax treaty relief is available and the Russian Tax Code requirements are met (i.e. the “beneficial ownership” concept and the concept of the “tax residency”), a Non-Resident Noteholder must comply with the information, documentation and reporting requirements which are then in force in the Russian Federation in order to obtain such relief.

A Legal Entity Non-Resident Noteholder who is the beneficial owner of income or proceeds in terms of an applicable double tax treaty and the Russian Tax Code would need to provide the payer of the income or proceeds with a certificate of tax residence issued by the competent tax authority of the relevant treaty country in advance of payment of income or proceeds in order to obtain a relief from Russian withholding taxes under a double tax treaty. This certificate should confirm that the respective Legal Entity Non-Resident Noteholder is a tax resident of the relevant double tax treaty country in the particular calendar year during which the income or proceeds is paid. This certificate should be apostilled or legalised and needs to be renewed on an annual basis. A notarised Russian translation of the certificate may be required. However, the payer of the income or proceeds in practice may request additional documents confirming the eligibility of the Legal Entity Non-Resident Noteholder for the benefits of the double tax treaty. In addition, in order to enjoy benefits under an applicable double tax treaty, the person claiming such benefits must be the beneficial owner of the relevant income or proceeds according to the respective requirements of the Russian Tax Code. In addition to a certificate of tax residency the Russian Tax Code obliges the Legal Entity Non-Resident Noteholder to provide the tax agent with a confirmation that it is the beneficial owner of the relevant income or proceeds in advance of payment of income or proceeds. As of the date of this Prospectus, there has been no guidance on the form of such confirmation and it is at the moment unclear how these measures will be applied in practice. Due to introduction of these changes, there can be no assurance that the treaty relief at source will be available in practice.

Currently, in order to obtain a full or partial exemption from taxation in Russia under an applicable double tax treaty at source, an Individual Non-Resident Noteholder should confirm to a tax agent that he or she is a tax resident in a relevant foreign jurisdiction having a double tax treaty with the Russian Federation by providing the tax agent with (i) a passport of a foreign resident, or (ii) another document envisaged by an applicable federal law or recognised as a personal identity document of a foreign resident in accordance with an international treaty, and (iii) if such passport/document does not confirm tax resident status in a foreign country, upon request of the tax agent, an official confirmation issued by the competent authorities evidencing his or her status as a tax resident in the respective country. A notarised Russian translation of such official confirmation is required. The above provisions are intended to provide a tax agent with the opportunity of applying reduced (or zero) withholding tax rates under an applicable double tax treaty at source.

Non-Resident Noteholders should consult their own tax advisers with respect to the applicability of any double tax treaty relief and the relevant procedures required in Russia.

### *Refund of Tax Withheld*

If (i) Russian withholding tax on income derived from either Russian sources, or from a Russian tax resident, which is a legal entity by a Non-Resident Noteholder has been withheld at source or (ii) tax on such income has been paid by a Non-Resident Noteholder on the basis of a tax return, and such Non-Resident Noteholder is entitled to relief from tax on such income under an applicable double tax

treaty allowing it not to pay the tax or to pay the tax at a reduced rate, a claim for a refund of such tax can be filed within three years from the end of the tax period in which the tax was withheld or paid (subject to limitations described below).

In order to obtain a refund, the Legal Entity Non-Resident Noteholder would need to file with the Russian tax authorities a duly notarised, apostilled and translated certificate of tax residence issued by the competent tax authority of the relevant double tax treaty country and other documents confirming the right for a refund under the Russian Tax Code (including the above Russian Tax Code requirements under the “beneficial ownership” concept).

If an Individual Non-Resident Noteholder wishes to obtain a refund, he or she should provide a claim for a refund of the tax withheld and documents confirming the right for a refund under the Russian Tax Code to the tax agent (if there is an agent in Russia). If there is no tax agent on the date of the receipt by the individual of confirmation of its tax residence status in a relevant foreign jurisdiction having an applicable double tax treaty with the Russian Federation, the individual can file a claim for a refund and documents confirming the right for a refund directly with the Russian tax authorities. Obtaining a refund of Russian taxes withheld may be a time-consuming process and can involve considerable practical difficulties, including the possibility that a tax refund may be denied for various reasons. Non-Resident Noteholders should consult their tax advisors regarding the procedures required to be fulfilled in order to obtain a refund of Russian income tax which was excessively withheld at source.

## **SUBSCRIPTION AND SALE**

Bank GPB International S.A., Citigroup Global Markets Limited, J.P. Morgan Securities plc, PJSC Sovcombank, Renaissance Securities (Cyprus) Limited, Sova Capital Limited and VTB Capital plc (together the **Joint Lead Managers and Joint Bookrunners**) have, pursuant to a Subscription Agreement dated 6 March 2020 agreed with the Issuer, subject to the satisfaction of certain conditions, to subscribe for the Notes.

The Issuer, failing whom the Guarantors, have agreed to pay to the Joint Lead Managers and Joint Bookrunners a combined management, underwriting and selling commission pursuant to the Subscription Agreement. In addition, the Issuer, failing whom the Guarantors, have agreed to reimburse the Joint Lead Managers and Joint Bookrunners for certain of their expenses in connection with the issue of the Notes. The Subscription Agreement entitles the Joint Lead Managers and Joint Bookrunners to terminate it in certain circumstances prior to payment being made to the Issuer. The Issuer and the Guarantors have in the Subscription Agreement agreed to indemnify the Joint Lead Managers and Joint Bookrunners against certain liabilities incurred in connection with the issue of the Notes, including liabilities under the Securities Act.

The Joint Lead Managers and Joint Bookrunners and their respective affiliates have performed and expect to perform in the future various financial advisory, investment banking and commercial banking services for, and may arrange loans and other non-public market financing for, and enter into derivative transactions with, the Issuer and its affiliates (including its shareholders and the Guarantors) and for which they will receive customary fees.

Each of the Joint Lead Managers and Joint Bookrunners and their respective affiliates may, from time to time, engage in further transactions with, and perform services for, the Issuer and the Group in the ordinary course of their respective businesses.

### **General**

Each of the Joint Lead Managers and Joint Bookrunners, the Issuer and the Guarantors has severally and not jointly, nor jointly and severally, agreed that it has in all material respects (to the best of its knowledge and belief) complied and will comply with all applicable laws and regulations in each jurisdiction in which it offers, sells or delivers Notes. Each of the Joint Lead Managers and Joint Bookrunners, the Issuer and the Guarantors severally and not jointly, nor jointly and severally, undertakes that it will use its reasonable efforts not to, directly or indirectly, offer or sell any Notes in any country or jurisdiction except under circumstances that will (to the best of its knowledge and belief) result in compliance with any applicable laws and regulations and all offers and sales of Notes by it will be made on the same terms.

### **United States**

The Securities have not been and will not be registered under the Securities Act and may not be offered or sold within the United States except pursuant to an exemption from, or a transaction not subject to, the registration requirements of the Securities Act.

Each Joint Lead Manager and Joint Bookrunner has severally and not jointly, nor jointly and severally, represented that it has not offered and sold Notes, and agreed that it will not offer or sell the Notes constituting part of its allotment within the United States except in accordance with Rule 903 of Regulation S. Accordingly, neither it, its affiliates nor any persons acting on its or their behalf has engaged or will engage in any directed selling efforts with respect to the Notes.

## United Kingdom

Each Joint Lead Manager and Joint Bookrunner has severally and not jointly, nor jointly and severally, represented, warranted and undertaken that:

- (a) **Financial promotion:** it has only communicated or caused to be communicated, and will only communicate or cause to be communicated, any invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000 (**FSMA**)) received by it in connection with the issue or sale of any Notes in circumstances in which section 21(1) of the FSMA does not apply to the Issuer; and
- (b) **General compliance:** it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

## Prohibition of Sales to the European Economic Area and UK Retail Investors

Each Joint Lead Manager and Joint Bookrunner has severally and not jointly nor jointly and severally represented, warranted and undertaken that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Notes to any retail investor in the European Economic Area or in the United Kingdom. For the purposes of this provision, the expression “**retail investor**” means a person who is one (or more) of the following:

- (a) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, “**MiFID II**”); or
- (b) a customer within the meaning of Directive (EU) 2016/97, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II.

## Ireland

Each Joint Lead Manager and Joint Bookrunner has severally and not jointly, nor jointly and severally, represented, warranted and undertaken that:

- (a) it will not underwrite the issue of, or place, the Notes otherwise than in conformity with the provisions of the European Union (Markets in Financial Instruments) Regulation 2017 (as amended, the “**MiFID II Regulations**”), including, without limitation, Regulation 5 (Requirement for authorisation (and certain provisions concerning MTFs and OTFs)) thereof, or any rules or codes of conduct made under the MiFID II Regulations, and the provisions of the Investor Compensation Act 1998 (as amended);
- (b) it will not underwrite the issue of, or place, the Notes, otherwise than in conformity with the provisions of the Companies Act 2014 (as amended, the **Companies Act**), the Central Bank Acts 1942-2018 (as amended) and any codes of conduct rules made under Section 117(1) of the Central Bank Act 1989 (as amended);
- (c) it will not underwrite the issue of, or place, or do anything in Ireland in respect of, the Notes otherwise than in conformity with the provisions of the Prospectus Regulation and any rules issued by the Central Bank of Ireland (the **CBI**) under Section 1363 of the Companies Act; and
- (d) it will not underwrite the issue of, place or otherwise act in Ireland in respect of, the Notes, otherwise than in conformity with the provisions of the Market Abuse Regulation (EU



596/2014) (as amended) and any rules and guidance issued by the CBI under Section 1370 of the Companies Act.

**Russian Federation**

Each Joint Lead Manager and Joint Bookrunner has severally and not jointly, nor jointly and severally, agreed that the Notes will not be offered, transferred or sold as part of their initial distribution or at any time thereafter to or for the benefit of any persons (including legal entities) resident, incorporated, established or having their usual residence in the Russian Federation or to any person located within the territory of the Russian Federation unless and to the extent otherwise permitted under Russian Law.

## **INDEPENDENT AUDITORS**

The Annual Consolidated Financial Statements have been audited by JSC “KPMG” of 10, Presnenskaya Naberezhnaya, Moscow, Russia, 123112, independent auditors, who have expressed an unqualified opinion on those financial statements, as stated in their reports appearing herein. JSC “KPMG” are a member of the self-regulated organisation of auditors Association “Sodruzhestvo” (SRO AAS).

The Issuer Financial Statements and the GTLKE Group Financial Statements have been audited by “KPMG”, Chartered Accountants and Statutory Audit Firm of 1 Harbourmaster Place, International Financial Services Centre, Dublin 1, Ireland who are chartered accountants and are members of the Institute of Chartered Accountants and registered auditors qualified to practise in Ireland. “KPMG”, Chartered Accountants and Statutory Audit Firm have expressed an unqualified opinion on those financial statements, as stated in their reports appearing herein.

FBK, LLC of 44/1, 2AB, Myasnitskaya St, Moscow, 101990, Russian Federation, were appointed as the independent auditors of STLC for the financial year ending 31 December 2019. FBK, LLC are a member of the self-regulatory organisation of auditors Association “Sodruzhestvo”.

Grant Thornton Ireland of 13-18 City Quay, Dublin 2, D02 ED70, Ireland, were appointed as the independent auditors of GTLKE and the Issuer for the financial year ending 31 December 2019. Grant Thornton Ireland are chartered accountants and are members of the Institute of Chartered Accountants and registered auditors qualified to practise in Ireland.

## GENERAL INFORMATION

1. The Notes have been accepted for clearance through the facilities of, Euroclear and Clearstream, Luxembourg. The International Security Identification Number (ISIN) is XS 2131995958 and the Common Code is 213199595. The address of Euroclear is Euroclear Bank SA/NV, 1 Boulevard du Roi Albert II, B-1210, Brussels and the address of Clearstream, Luxembourg is Clearstream Banking, 42 Avenue JF Kennedy, L-1855, Luxembourg.
2. The website of the GTLKE Group is <https://www.gtlkeurope.com/>. The information on <https://www.gtlkeurope.com/> does not form part of this Prospectus, except where that information has been incorporated by reference into this Prospectus.
3. The website of STLC is <https://www.gtlk.ru/en/>. The information on <https://www.gtlk.ru/en/> does not form part of this Prospectus, except where that information has been incorporated by reference into this Prospectus.
4. It is expected that admission of the Notes to trading on the Regulated Market of Euronext Dublin will be granted on 10 March 2020, subject only to the issue of the Notes. Transactions will normally be effected for settlement in U.S. dollars and for delivery on the third business day after the day of the transaction.
5. The Issuer and the Guarantors have obtained all necessary consents, approvals, authorisations or other orders for the issue of the Notes and the other documents to be entered into by the Issuer and the Guarantors in connection with the issue of the Notes. The issue of the Notes was authorised by a decision of the Board of Directors of the Issuer on 21 February 2020. The giving of the Guarantee by GTLKE was authorised by a decision of the Board of Directors of GTLKE on 21 February 2020.
6. STLC is a public joint stock company organised under the laws of the Russian Federation with the legal name Public Joint Stock Company “State transport leasing company”, main state identification number 1027739407189. STLC was registered in the Russian Federation on 19 November 2001 as Closed Joint Stock Company “Civil Aviation Leasing Company”. In 2006, STLC was re-organised by way of transformation into Open Joint Stock Company “State transport leasing company”. In 2015, the STLC’s name was changed to Public Joint Stock Company “State transport leasing company”. STLC’s registered address is Room 100, Bld. 73, ul. Respubliki, Salekhard, Yamalo-Nenetsky Avtonomny Okrug, Russian Federation, 629008. STLC’s principal place of business is Moscow, Russian Federation, telephone +7 495 221-00-12.
7. GTLKE was incorporated to facilitate aviation leasing. GTLKE is an operating and a holding company and its main activities include leasing, trading, remarketing, asset management as well as consulting on commercial aircraft and ship transactions. The Group holds many of the assets that it leases to customers through GTLKE’s subsidiaries, particularly aircraft that are largely registered in the jurisdictions in which such subsidiaries are incorporated. See “*GTLK Europe DAC*”.
8. The Issuer was incorporated to act as a Group finance company. See “*The Issuer*”.
9. STLC is an operating company and a holding company for its operating and intermediary holdings subsidiaries that together comprise the business of the Group. See “*Business*”.

10. The estimated expenses associated with the admission to trading on the regulated market of Euronext Dublin of the Notes are expected to be approximately EUR 5,000.
11. Arthur Cox Listing Services Limited is acting solely in its capacity as listing agent for the Issuer in connection with the Notes and is not itself seeking admission of the Notes to the Official List of Euronext Dublin or to trading on its regulated market for the purposes of the Prospectus Regulation.
12. For as long as the Notes are listed on the Official List of Euronext Dublin and admitted to trading on the Regulated Market, the following documents will be available for inspection:
  - (a) from <https://www.gtlkeurope.com/en/presentations/>:
    - (i) a copy of this Prospectus, together with any supplement to this Prospectus;
    - (ii) a copy of the constitution of the Issuer;
    - (iii) a copy of the constitution of GTLKE; and
    - (iv) the Trust Deed, which includes the forms of the Guarantee, the Global Certificate and the Definitive Certificate; and
  - (b) from <https://www.gtlk.ru/en/investors/>, a copy of the charter of STLC.
13. There has been no significant change in the financial performance or position (i) of the Issuer since 31 December 2018, (ii) of GTLKE since 31 December 2018 or (iii) of STLC or of the Group since 30 September 2019, and there has been no material adverse change in the prospects (i) of the Issuer since 31 December 2018, (ii) of GTLKE since 31 December 2018 or (iii) of the STLC or of the Group since 31 December 2018.
14. There have been no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Guarantors are aware), during the previous 12 months in relation to the Guarantors, which may have, or have had in the recent past, significant effects on the Guarantors' and/or the Group's financial position or profitability.
15. There have been no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware), during the previous 12 months since the date of the Issuer's incorporation, which may have, or have had in the recent past, significant effects on the Issuer's financial position or profitability.
16. Save for the fees payable to the Joint Lead Managers and Joint Bookrunners, the Trustee, the Principal Paying Agent and the Registrar, so far as the Issuer is aware, no person involved in the issue of the Notes has an interest that is material to the issue of the Notes.
17. The Bank of New York Mellon SA/NV, Luxembourg Branch will act as Registrar in relation to the Notes.
18. BNY Mellon Corporate Trustee Services Limited is a professional trustee company, which is providing its services in relation to the Notes on an arm's length basis in consideration of a fee. Under the terms of the Trust Deed, the power of appointing new trustees is vested in the Issuer but a trustee so appointed must in the first place be approved by an Extraordinary Resolution of Noteholders. The Noteholders have the power, exercisable by Extraordinary Resolution, to remove any trustee or trustees. The removal of any trustee is only effective if

following the removal there remains a trustee (being a trust corporation) in office after such removal. In addition, BNY Mellon Corporate Trustee Services Limited, or any other trustee duly appointed, may retire at any time upon giving not less than three months' notice in writing to the Issuer. The retirement of any trustee is only effective if, following the retirement, there remains a trustee (being a trust corporation) in office after such retirement. If the trustee has given notice of its desire to retire and the Issuer is unable to procure a new trustee to be appointed and the Issuer has not by the expiry of such notice appointed a new trustee, the trustee shall have the power of appointing new trustee(s).

19. The Trust Deed provides, among other things, that the Trustee may rely on any certificate or report prepared by accountants or other experts pursuant to the Trust Deed (whether or not addressed to the Trustee), notwithstanding whether or not the accountants' or other experts' liability in respect thereof is limited by a monetary cap or otherwise.
20. The language of the Prospectus is English. Certain legislative references and technical terms have been cited in their original language in order that the correct technical meaning may be ascribed to them under applicable law.

**REGISTERED OFFICE OF THE ISSUER**

**GTLK Europe Capital DAC**

2nd Floor, 2 Hume Street  
Dublin 2  
Ireland

**REGISTERED OFFICE OF THE GUARANTORS**

**Public Joint Stock Company  
“State transport leasing company”**

Office 100, Bld. 73, ul. Respubliki  
Salekhard 629008  
Yamalo-Nenets Autonomous District  
Russian Federation

**GTLK Europe DAC**

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Dublin 2  
Ireland

**JOINT LEAD MANAGERS AND JOINT BOOKRUNNERS**

**Bank GPB International S.A.  
(Gazprombank)**  
15, rue Bender  
L-1229 Luxembourg

**Citigroup Global Markets Limited**  
Citigroup Centre  
Canada Square  
Canary Wharf  
London E14 5LB  
United Kingdom

**J.P. Morgan Securities plc**  
25 Bank Street  
Canary Wharf  
London  
E14 5JP  
United Kingdom

**PJSC Sovcombank**  
46 Tekstilshchikov prospect  
city of Kostroma, Kostroma region  
Russian Federation, 156000

**Renaissance Securities (Cyprus) Limited  
(Renaissance Capital)**  
Arch. Makariou III  
9th floor 2-4 Capital Center  
1065 Nicosia  
Cyprus

**Sova Capital Limited**  
12 Floor, 88 Wood Street  
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United Kingdom

**VTB Capital plc**  
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London  
EC3V 3ND  
United Kingdom

**TRUSTEE**

**BNY Mellon Corporate  
Trustee Services Limited**

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London E14 5AL  
United Kingdom

**PRINCIPAL PAYING  
AGENT**

**The Bank of New York  
Mellon, London Branch**

One Canada Square  
London E14 5AL  
United Kingdom

**REGISTRAR AND A  
TRANSFER AGENT**

**The Bank of New York  
Mellon SA/NV, Luxembourg  
Branch**

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Polaris 2-4 Rue Eugene  
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**LEGAL ADVISERS**

*To the Issuer and the  
Guarantors as to English law*

**Allen & Overy LLP**

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*To the Issuer and the  
Guarantors as to Russian law*

**Allen & Overy Legal Services**

Dmitrovsky Pereulok 9  
1070301 Moscow  
Russian Federation

*To the Issuer and the  
Guarantors as to Irish law*

**Arthur Cox**

Ten Earlsfort Terrace  
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*To the Joint Lead Managers  
and Joint Bookrunners  
as to English law*

**Linklaters LLP**

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*To the Joint Lead Managers  
and Joint Bookrunners as to  
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**Linklaters CIS**

Paveletskaya Sq.2, bld 2  
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*To the Trustee as to English law*

**Linklaters LLP**

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## INDEPENDENT AUDITORS

*Current independent auditors to STLC*

**FBK, LLC**  
44/1, 2AB, Myasnitskaya St  
Moscow 101990  
Russian Federation

*Previous independent auditors to STLC*

**JSC “KPMG”**  
10, Presnenskaya Naberezhnaya  
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Russian Federation

*Current independent auditors to the Issuer and  
GTLKE*

**Grant Thornton Ireland**

13-18 City Quay  
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D02 ED70  
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*Previous independent auditors to the Issuer and  
GTLKE*

**“KPMG”, Chartered Accountants and  
Statutory Audit Firm**

1 Harbourmaster Place  
International Financial Services Centre  
Dublin 1  
Ireland

## LISTING AGENT

**Arthur Cox Listing Services Limited**

Ten Earlsfort Terrace  
Dublin 2  
Ireland